

# **Small and Medium Enterprises and Devolved Government System: an Assessment of the Regulatory and Institutional Challenges Affecting the SMEs Development in Kenya**

**By**

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## **Abbreviations**

CUTS	Consumer Unity and Trust Society
EPC	Export Promotion Council
HCDA	Horticulture Development Authority
KENAPOFA	Kenya National Potato Farmers Association.
KIRDI	Kenya Industrial Research and Development Institute
KIPI	Kenya Industrial Property Institute
KEBS	Kenya Bureau of Standards
KARI	Kenya Agricultural Research Institute
MOA	Ministry of Agriculture
PSD	Private Sector Development.
SBDC	Small business Development Cooperation
SEDA	Small Enterprise Development Agency
SMEs	Small and Medium enterprises

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## Executive Summary

According to the UNCTAD Secretary General in 2006, small and medium enterprises (SMEs) are considered as sources of employment, competition, economic dynamism, and innovation. SMEs have the capacity to achieve rapid economic growth, while generating a considerable extent of employment opportunities (Reddy, 1991:2). The importance of the SMEs in Kenya was first recognised in the International Labour Organization report (ILO) in 1972 on *'Employment, Income and Equity in Kenya'* (ILO, 1972). The report underscores the SMEs as engines for incomes and employment growth. The SMEs create close to 80% of Kenya's employment (African Economic Outlook, 2011 report<sup>2</sup>). While the SMEs subsector constitute close to 80% of employment, it only contributes to about 20% of the GDP. This implies that the SMEs subsector has been performing dismally despite its potential contribution to Employment, income and equity in Kenya.

Despite the dismal performance, devolution structure is underscored as a potential instrument for enhancing Local Economic Development through SMEs. A well formulated devolved system of governance is expected to create a conducive institutional and regulatory environment to support the SMEs development. A new window of opportunity has been created under the current constitution of Kenya, which would foster the regulatory and institutional framework for SMEs. For instance, Chapter 11 (section 174 a-i) of the Constitution stipulates the key objectives of the devolved government, where one of the key objectives is to promote social and economic development. The new constitutional regime is generally expected to promote LED through devolution framework which leverages efforts to promote LED oriented activities, like those related to SMEs. The constitution objective in fostering LED is further supported by the recently enacted Small and Medium Enterprises Act, Urban Areas and Cities Act No 13 of 2011 and the County Government Act 2012. The Act aims at supporting the preparation of Integrated Urban Development Plans, where local oriented economic activities will feature with a refined focus on an integrated development of SMEs, as stipulated in section 36(1) of the Act. Given the recent developments in the Kenya's institutional and regulatory framework, it is imperative to appraise the regulatory and institutional framework for SMEs. The contours of such appraisal should evaluate the existing and potential institutional and regulatory challenges which might be a bottleneck to the revitalisation of SMEs, at the county level. It is in this regard that this study analysed the current and past regulatory and institutional framework inclined to SMEs, the institutional and regulatory challenges facing the SMEs at county levels, and the mechanisms or channels through which the new devolved government will contribute to innovative and value addition activities at the county level. The study adopted Participatory Appraisal Competitive Advantage (PACA) methodology to collect the primary data to inform

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<sup>2</sup> See <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Kenya%20Full%20PDF%20Country%20Note.pdf>



on the analysis. A case study of Irish potatoes, Dairy, Fishing, Pineapples, Oranges was used to understand the various institutional and regulatory challenges facing the SMEs in Kenya.

The study findings depict various institutional and regulatory challenges facing the SMEs in Kenya. These include Poor Coordination of the SMEs Activities; Inadequate Private and Public Dialogue at the County Level; Poor enforcement of Regulatory legislations; and Knowledge Gap on National and County Policies Interface. The study recommends the need to establish an inclusive private-public dialogue; support the establishment of stronger business associations at the county level: formulate specific county led SMEs policies aligned with overall SMEs policy; need to establish tailored training institutes for SMEs at the county level; need to establish SMEs oriented financial institutions in each county; establishing an import and export bank for SMEs; need for a central government to coordinate the SMEs issues in the country; establish a SMEs development organization, establishing an entry level for SMEs groups; cross county knowledge sharing and field experiences.

## **1. Introduction**

### **1.1: Context of the Study**

Various countries have embarked on pursuing devolution as mechanisms for enhancing inclusive development (Rodriguez-Pose and Gill 2004). Devolution is considered as an extensive form of decentralisation involving the transfer of authority and resources to sub national tiers of government (Rodriguez-Pose and Bwire 1998). The central government under the devolution framework transfers authority for decision-making, finance management and service delivery to quasi-autonomous units of local government that elect their own councils, raise their own revenues, and have independent authority to make investment decisions (Litvack et al. 1998).

A certain degree of autonomy for investment and expenditure decisions allows sub national units to pursue policies for economic development tailored to their own local needs and endowments (Gil et al. 2004). Devolution is thus expected to make public expenditure more efficient (Martinez-Vasquez and McNab 2005), create opportunities for local regimes to mobilise around sustainable development (Benneworth and Roberts 2002) and contribute to a better coordination among various local actors (e.g. local government, businesses and civil society). Devolution enhances a mechanism through which local oriented activities can be rejuvenated to contribute to a sustainable economic development.

A well formulated devolved system of governance is expected to promote favorable macroeconomic environment for economic activities which benefits the sectors with greater multiplier effects on Local economic development, where Small and Medium Enterprises (SMEs) are known to constitute larger percentage of economic activities. SMEs have the capacity to achieve rapid economic growth, while generating a considerable extent of employment opportunities (Reddy, 1991:2). SMEs have been recognised as engines through which growth objectives of the developing countries can be achieved. They are potential sources of employment and income in many countries. SMEs seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. SMEs are able to withstand adverse economic conditions because of their flexible nature (Kayanula and Quartey, 2000). They are also more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995). SMEs also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth (Kayanula and Quartey, 2000).

The importance of the subsector in Kenya was first recognised in the International Labour Organization report (ILO) in 1972 on *'Employment, income and Equity in Kenya'*

(ILO, 1972) .The report underscored the sector's critical role in promoting growth in incomes and employment. The importance of the sector has also been affirmed in the African Economic Outlook, 2011 report<sup>3</sup>. According to the report, the SME subsector plays a significant role in the Kenya's economic structure, where the sector employed close to 80% of Kenya's total workforce in 2011. While the SMEs subsector constitute close to 80% of employment, it only contributes to about 20% of the GDP. This implies dismal subsector performance despite its potential contribution to employment, income and equity as was asserted in the ILO report in 1972. The paltry performance of the SMEs in Kenya is linked to several constraints among which the regulatory and institutional framework is alleged to be one of the factors.

The attempts to address the growth of SMEs in Kenya can be mirrored in the current constitution of Kenya enacted in 2010, where devolution has been embedded as a key instrument in fostering LED initiatives. The devolution instruments is expected to affect the key drivers of the economy related to the SMEs which requires a local driven SMEs policy embedded on the devolution structure. However, the policy framework to promote the local economic development of SMEs has been pegged on wider national policies for a long time, with limited emphasis on local led development strategies. As such, there is need to develop policies which seek to realign the overall SMEs policies with the envisaged devolution framework as outlined in the current Constitution. A window of opportunity has been opened through the County system of government with its focus on local economic development opportunities based on local resources.

It is in this regard that this study analyses the institutional and regulatory challenges for SMEs vis a vis the devolved government system. The study has been based on selected case studies to understand the possible existing institutional and regulatory challenges. Policy and recommendations have been based on the case study findings given the nature of the similarities in the SMEs structure, and possible challenges in the regulatory framework in Kenya. The study is expected to recommend the best regulatory and institutional policies which should be adopted to revitalize the SMEs development in the respective counties.

## **1.2: Definition, Classification and Composition of SMEs in Kenya**

Numerous efforts have been explored by policy makers to define the concept of SMEs in different economies. The various attempts have resulted into multi approach in understanding the concept of SMEs. The concept of SMEs varies from one country to

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<sup>3</sup> See

<http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Kenya%20Full%20PDF%20Country%20Note.pdf>

another depending on the indicators used (Visser, 1997). The first criteria, based on the number of employees, defines SMEs as those enterprises below a certain number of workers (i.e. can range from less than 10 to less than 50 employees). The second criterion defines the SMEs as the degree of legal formality, and has been used to distinguish between the formal and informal sectors. Here, Micro, small and medium enterprises (MSMEs) are considered as enterprises which are not registered and do not comply with the legal obligations concerning safety, taxes and labour laws. The third criterion defines SMEs as based on the limited amounts of capital and skills per worker.

Even though the definition varies from one country to another (depending on the economic structure), the regulatory and institutional framework for the Kenya's SMEs has been based on the number of employees and the company's annual turnover (MSMEs Act, 2012). For instance, the micro enterprises have been defined as those employing less than 10 workers with annual turnovers of less than KES 500,000 and capital formation of less than KES 5 million for services or less than KES 10 million for enterprises doing manufacturing. Small enterprises are defined as those that employ between 10 and 50 workers with annual turnovers between KES 500,000 and KES 5 million and capital formation between KES 5 million and KES 20 million for services or between KES 5 million and KES 50 million for enterprises doing manufacturing (see table 1 below).

**Table 1: Classification of MSEs by the MSE Act, 2012**

Entity (Trade service, industry or business activity)	No of Employees/People	Annual Turnover Limit	Investment in Plant and Machinery +Registered Capital	Equipment Investment+Registered Capital
Micro Enterprise	Less than 10 people	Not exceeding KES 500,000	Not exceeding KES 10M	Not exceeding KES 5M
Small Enterprise	More than 10 but less than 50	Between KES 500,000 to 5M	More than 10m but less than 50M	More than 5m BUT LESS THAN 20M

*Source: GoK, 2010*

Generally, the SMEs sector in the country comprises of manufacturing and trade (wholesale and retail) sub-sectors, with substantial engagement in agro-based activities, which, directly affects a larger population in the society. The SMEs subsector are businesses in both formal and informal sectors accounting to more than 74% of the total persons engaged in employment per year and contributing more than 18.4% of the country's GDP.

### **1.3: Statement of the Problem/Motivation of the Study**

ILO, 1972 report underscored the importance of the SMEs sub sectors in promoting growth in incomes and employment in Kenya. However, various economic policies and

strategies which have been pursued to support the development of SMEs have not significantly contributed to local economic development. Such policies have been centered on the development of larger enterprises and have been biased towards urban areas despite the reality that majority of the Kenyans are in the rural areas and the overwhelming majority of enterprises are SMEs. There are also indications that most SMEs are scattered, with no formal institutional framework to address their concerns. Furthermore, over 80% of the SMEs in Kenya are agro-based with limited technological innovation capacity. It is in this regard that this study seeks to answer the following key questions; what has been the regulatory and institutional challenges facing the development of the SMEs sector? Does the current devolved governance structure mitigate such challenges to enhance the local development of SMEs? If not, what governance structure/SMEs strategy should the government adopt to support the development of SMEs at the county level? What are the channels through which devolution can contribute to innovative and value addition activities at the county level?

#### **1.4: Objectives and Scope of the Study**

The overall objective of this study is to analyse institutional and regulatory framework for SMEs vis-a-vis the devolved government system. The specific objective include;

- (a) To understand and analyse current and past regulatory and institutional framework inclined to SMEs,
- (b) To analyse institutional and regulatory challenges facing the SMEs at county levels,
- (c) To find out the mechanisms or channels through which the new devolved government will contribute to innovative and value addition activities at the county level, and
- (d) To provide evidence for the development of policy choices to support the development of SMEs strategy for the county governments.

The study was conducted under the following terms of reference:

#### **Box 1: Study Terms of Reference**

- a) Understanding the current and past regulatory and institutional framework inclined to SMEs,
- b) Evaluating the effectiveness of the current regulatory /institutional framework in supporting local development of the SMEs at the county level under the devolved government system,
- c) Analysing the institutional and regulatory challenges facing the SMEs at county levels,
- d) Understanding the mechanisms or channels through which the new devolved government will contribute to innovative and value addition activities at the county level, and
- e) Providing evidence for the development of policy choices to support the development of SMEs strategy for the county governments.

#### 1.4: Significance of the Study

The Constitution of Kenya incisively emphasises on devolution as a key instrument for enhancing local led sustainable development at the county level. The output of the study is expected to provide evidence and inputs for developing policy choices aimed at improving the regulatory and institutional governance for SMEs at the county levels. The improved framework is expected to contribute to a conducive business environment for SMEs, hence supporting the growth of the enterprises at the local level. This will further contribute to the improvement of livelihood, resulting into poverty reduction, hence contributing to socio-economic development through multiplier effects .The output of the study is thus expected to contribute to the implementation of the County system, given that the devolution process is yet to pick up.

#### 1.5: Scope and Methodology

##### 1.5.1: Sector and Geographical Scope

To understand the landscape of the SMEs structure in terms of the institutional, regulatory and value addition activities, the study considered four counties and five subsectors. Several criteria were used to select various case sectors and counties for analysis which included the following factors/indicators;

- (a) The study considered the sub sectors with the most important economic activity (in terms of majority employment and potential to develop a more vibrant SME value chain industry) in each region. Hence, fishing and fish trade was identified in both Nyanza and Coast while dairy was identified in both Central and Rift Valley.
- (b) The study considered one county per region in which the above identified activities were most vibrant. In this context, the fishery was considered to be concentrated in both Homa- Bay and Kwale while Dairy was seen to be concentrated in Bomet and Kiambu counties.
- (c) The study also considered economic activities that are comparable across any two counties. Based on this criterion, Irish potato farming was identified as important to both Bomet and Kiambu while fruits, generally (and specifically, pineapples and Oranges) were identified as important to Homa-Bay and Kwale Counties. It is against these background that this study was conducted in western; Rift Valley; Central; and coastal regions.

The following summarises the scope of the study in terms of the chosen sub sectors and geographical coverage.

**Table 2: Geographic and Sector Scope**

Sample County Study	Sample Sub Sector Study
Kiambu	dairy sector, Irish potatoes
Bomet	dairy, Irish potatoes
Homabay	fishing, pineapples
Kwale	fishing, Oranges

*Source: Research Team*

The sectors and the geographical locations selected were aimed at collating inputs to be used in understanding the regulatory and institutional policy challenges facing the SMEs. The inputs collated would provide the benchmark for policy formulation.

### **1.5.2: Data Collection**

#### **1.5.2.1: Secondary Data**

The research team examined relevant documentation which included reports and various policy documents. The purpose of the documentary review was to collect published data and information on institutional and regulatory challenges facing the SMEs, the current and the past regulatory and institutional framework inclined to SMEs. The key documents were obtained from the Ministry of Industrialisation, Ministry of Labour, Ministry of Agriculture, Ministry of Livestock and Fisheries Development and sector specific associations like Kenya National Potatoes Farmers Associations (KENAPOFA). The review also included a comparative analysis on the regulatory and institutional practices for a more advanced economies in terms of development in SMEs structure like India and South Africa. Other secondary sources of data used in this study included previous study reports and publications on SMEs issues like the SMEs hand Book, the SMEs Act, 2012 among others.

#### **1.5.2.2: Primary Data collection**

The study adopted the Participatory Appraisal Competitive Advantage (PACA) methodology to collect the primary data. The PACA methodology is a consolidation of various key elements which are the integral components of PACA. The Key elements are defined as follows;

- (a) Participatory: This implies that the PACA methodology is premised on the fact that a successful local economic development should be based on the active involvement of stakeholders who are relevant for economic development. The PACA methodology seeks to enhance a constructive relationship between the public and private sector in an economy. Hence this study involved the local stakeholders to collate and deduce relevant recommendations.
- (b) Appraisal: The core of PACA is a methodology which permits a rapid appraisal of local economy –not only of economic potentials but also political factors. This implies that PACA framework assess the local led potential in terms of economic and political factors.
- (c) Competitive advantage ;The main thrust of PACA is not to elaborate endless lists of problems ,deficiencies and bottle necks, but to look for opportunities which improve the local business environment within a short period of time.

The PACA methodology was preferred in this study, given its framework to directly engage various stakeholders at the local level to come up with demand driven solutions to enhance conducive environment for SMEs development. The PACA framework provided a platform which facilitated the engagement among the various stakeholders. The methodology provided an opportunity for SMEs association to develop a constructive relationship for policy advocacy. The PACA methodology also integrates emphasis on bottom up proposals which aim at removing bureaucratic obstacles to doing business. The PACA Exercise was conducted through the following processes;

**Box 2: Design and Process of the PACA Framework.**

The PACA process began by undertaking preparatory Exercise. During this process, available data and information were gathered from Bomet, Kiambu, Homabay and Kwale counties. Additional data were also gathered from the key stakeholders who were at the same time informed about the PACA exercise. The key stakeholders who were also the nodal persons in the respective counties provided the list of participants to be engaged during the Mini workshops. Recruitment of PACA Team and Organisation of mini Workshops were also undertaken at this stage. The PACA team was composed of two facilitators from each county.

The preparatory exercise was followed by PACA Field Work: The PACA fieldwork process involved conducting mini workshops in the four counties to gather in-depth information on the specific issues affecting the SMEs associations, individual entrepreneurs, DDO, DLO, DAO; the producer groups like the KENAPOFA, Dairy Farmer groups, regulatory authorities at the local level. Each Mini Workshop had 30 participants divided into two equal groups, where 15 participants were from each of the subsectors in each county. The participants from each subsector were grouped together to consolidate different ideas from each of the sub sectors. For instance, the participants from Irish Potatoes and Dairy industry in Bomet were grouped and engage separately in a focus group discussion. The mini workshops were followed by key informant's field work interviews, where the key stakeholders were engaged during the process. The predetermined questionnaires, (with particular domain) were administered to the key policy makers in (Bomet, Homabay; Kiambu and Kwale). The key informants included officials from the Ministry of Agriculture, Ministry of Livestock and Fisheries, Business Associations and farmer groups, Local authorities to provide information on how the new devolved system of governance can provide an effective institutional and regulatory framework to support the development of SMEs at the county level. A diverse and a common position on regulatory and the mechanisms or channels through which the new devolved system of governance will contribute to innovative and value addition activities at the county levels for the SMEs were developed based on deliberations from the focus group discussions.

### **1.5.3: Theoretical Framework**

Decentralisation involves the delegation of powers to lower levels in territorial hierarchy whether the hierarchy is one of the governments with a state or offices with a large scale Organization (Smith 1985:1). Decentralisation thus involves creation of smaller territories establishment of political and administrative institutions. There are four forms of devolution. Devolution as a form of decentralisation implies that the central government gives up certain functions and creates new units of government outside control (Rondinelli and Cheema (1983). Heywood 2007 further asserts that devolution establishes the best measure of decentralisation within the unitary system of government. In terms of economic, devolution framework improves efficiency (Shepard, 1975), where



stakeholders have the opportunity to directly contribute to the policy making process. The ability to enhance inclusive public participation in the governance process exist when devolution system contributes to sustainable development in terms of promoting participatory policy formulation process, and the formulation of policies which are adapted to local needs (Sharma, 2000). An effective devolved system is expected to increase the incentives and the capacity of the poor to actively participate in the decision-making, to decide and lobby for their interests [Manor, 1999], bringing about their 'empowerment' as well as contributing to pro poor policies. Devolution can equally bring about efficiency gains, especially in service delivery, given that the local officials are supposed to have a better knowledge of local needs and preferences [Hayek in Ostrom et al., 1993]. Thus, devolution process requires a participatory process to enhance inclusive policy development to enhance local Economic development.

Decentralisation which is a form of devolution, reduces costs, improves outputs and utilises human resources more effectively (Hart, 1972). Decentralisation is believed to improve access to administrative agencies (De Mello, 1981). Rationale for decentralisation explicated by Rondinelli and Cheema (1983) includes overcoming limitation of central controlled tailoring of development plans in accordance with the local needs heterogeneous groups, reduced red tapes, sensitivity to local problems, close contact between officials and people, institutionalisation of participation, flexible innovative and creative administration. The capacity of local government to decide and implement pro-poor policies largely depends on the design of the decentralisation process and it is related to factors such as local governments' human and fiscal resources and type of functions devolved (Bardhan and Mookherjee, 2000). The pro poor policies are related to the development strategies which seeks to enhance inclusive development.

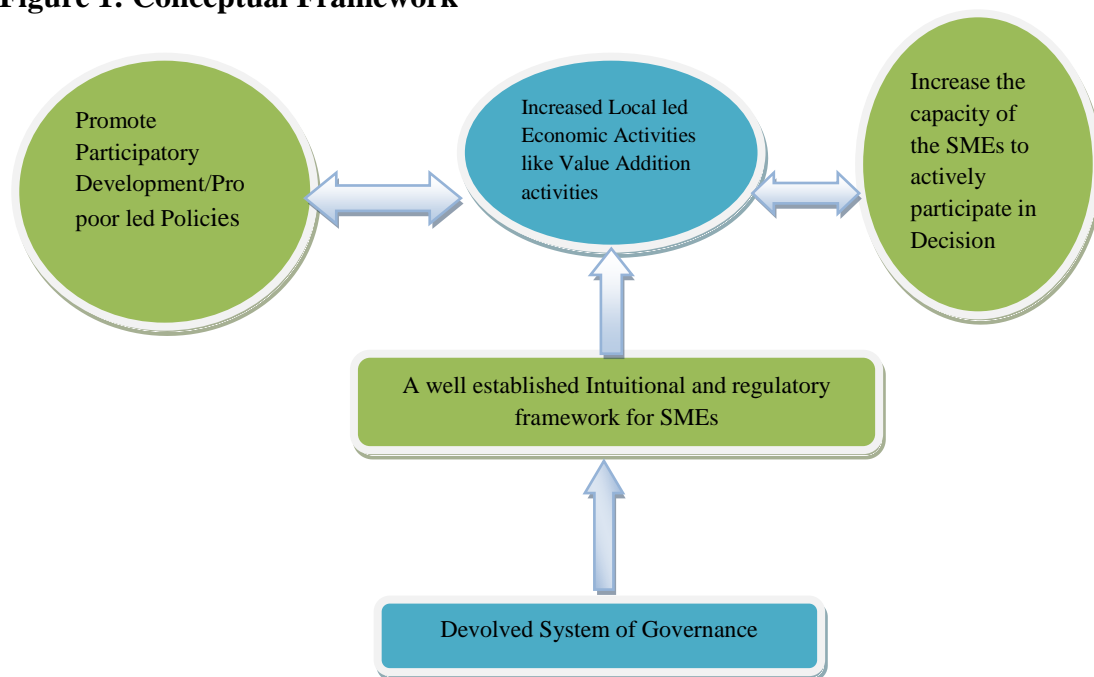
Despite the positive relationship between devolution and local economic development, the impact of devolution process initiatives depends upon a number of internal and external factors, like age, size, nature of tasks, technology, internal management, regulatory and administrative capacity, and sociopolitical and economic factors (Kiggundu, 2000). Hence there is no automatic relationship between devolution and local economic development under the county system .There is need for a demand-driven county regulatory and institutional framework, to support the development of various local led economic activities like those related to SMEs at the county level. Such framework would promote increased mechanisms for public participation and increased linkages between government and Non state actors (Boyle and Humphreys, 2001, p. 80).

#### **1.5.4: Conceptual Framework**

For devolution and SMEs to contribute to LED at the county level, there are core institutional and regulatory elements to be considered. According to the existing theory on governance, devolution is expected to Promote Participatory Development through Pro

poor led Policies; Increased LED activities (like those related to Value Addition activities); Increase the capacity of the SMEs to actively participate in Decision making. However, the socio-economic impact of devolution process on economic activities depends on the design and effectiveness of the existing institutional and regulatory framework for SMEs at the county level. To enhance LED through SMEs growth, the local development strategy for SMEs should emphasise on the importance of an enabling policy and institutional environment etc to support the contribution of devolution on SMEs related growth. The relationship between the elements associated with the linkage between devolution and sustainable economic development can be summarised in the following framework.

**Figure 1: Conceptual Framework**



*Source: Research Teams' deduction based on the Theoretical Framework*

The conceptual framework implies that a well formulated devolved framework in an economic system should enhance local led economic activities. Such framework should be supported by an effective institutional and regulatory framework for SMEs in the various regions of Kenya. Devolution is underscored as an important tool for enhancing such linkages. However, the rebirth of the devolution in Kenya after the 1963 has been initiated by the new constitution which was enacted in 2010. At the same time, the SMEs have been in existence for many decades in Kenya under the non-devolved government system. It would thus be important to analyse the architecture of the regulatory and institutional framework for SMEs in Kenya. This would be important in delineating the current and the past regulatory framework inclined to the SMEs in Kenya.

## **2.0: Literature Review**

### **2.1: Evolution of SMEs Policies and Laws in Kenya**

The revolution of government strategies on SMEs can be traced back after the ILO report of 1972 on Employment, income and equity in Kenya which recognised SMEs as important sector for creating income and employment for the Kenyan population. The sector's importance in economic development was singled out in *Sessional Paper No.1 of 1986, Economic Management for Renewed Growth (GOK, 1986)*, which set out mechanisms for enhancing an enabling environment for SMEs. The Government's commitment in *Sessional Paper 1 of 1986* was reinforced in the 1989 GOK report, *'the strategy for small Enterprises'*, which delineated the mechanisms for removing the constraints to growth and the development of the SME sector.

A further effort by the government formulation of a policy framework on SMEs was recognised in Sessional Paper No.2 of 1992, *"Small and Medium Enterprises (MSMEs) and Jua kali Development in Kenya"*. The Sessional paper recommended that the relevant ministries in consultation with the Attorney general's office address the legal and regulatory framework to support the creation of an enabling business environment for SMEs. The Sessional paper specifically recommended the need to undertake a comprehensive review and analysis of the Acts and licenses that pertain to SMEs, especially those that negatively impacted on the growth and development of the SMEs. The paper also advocated for the formation of association to provide easy access to information to various enterprises in the country.

There are other policy documents which also declared the government's intention to create an enabling legal and regulatory environment. For instance, the Development Plan for 1989-1993 implied that the government would speed up the already initiated review of the local authorities by laws and regulations that have proved restrictive to the development of SMEs. Moreover; the small Enterprise Policy Implementation Programme mission report of 1994 was also identified the failure to address some key issues such as legislative reform, land allocation and poor infrastructure as the main weakness inhibiting the development of the SMEs. The government also pledged to harmonise the licensing regime and simplify requirements so as to encourage commercial and industrial investment (Development Plan 1994-1996). Another Sessional paper No.2 on the development of SMEs for wealth and employment creation for poverty reduction was formulated and published in 2005. The Sessional paper spelt out some of the key measures to address business registration, business licensing and the tax regime.

### **Box 3: Objectives of the PSD**

- Goal 1: Improving Kenya's business environment.
- Goal 2: Accelerating Institutional transformation within the public sector.
- Goal 3: Facilitating growth through greater expansion of trade.
- Goal 4: Improving the productivity of enterprises.
- Goal 5: Supporting entrepreneurship and indigenous enterprise development

**Source: PSD strategy, 2006-2010**

Another policy regime which attempted to address the SMEs issues integrated the SMEs issues in the Private sector Development Strategy (2006-2010). The strategy considered SMEs as a central link between the private sector and poverty reduction. The PSD strategy was developed by the government of Kenya. The PSD outlined the specific policies and strategies that needed to be pursued in order to enhance private sector growth and competitiveness. The PSDS had five key goals [See box 3]; The PSD strategy recognises the SMEs to be more labour intensive and promote equitable distribution of income since they are owned by poorer entrepreneurs', a significant of who are women. The strategy also identified the SME sector to be generally constrained by lack of access to markets, limited access to capital, limited skills and firm-of effective representation in sector-specific and umbrella business associations that would provide a forum to articulate their issues for further redress. To address the aforementioned constraints, Goal 5 of PSD strategy aimed at facilitating the SMEs competitiveness by supporting the development of new enterprises, improving access to capital, facilitating the graduation and evolution of enterprises, promoting firm to firm linkages and promoting broader MSMEs representation in business associations. The other milestones by the government regarding the revitalisation of the SMEs in Kenya include the enactment of the micro-finance Act and the SACCOS Act.

It is evident that several attempts have been made to formulate policies to support the SMEs sectors in Kenya. However, the existing policies have been nationwide oriented, with limited focus on addressing region specific SMEs issues in Kenya. Such regulatory framework also requires a well-established institution to oversee the implementation of the respective legislations. It would thus be vital to understand the landscape and

architecture of the existing institutional framework established to address possible constraints affecting the SMEs in Kenya.

## **2.2: The Institutional Framework for SMEs in Kenya**

### **Box 4: Objectives of the SME Act 2012**

- (a) To promote an enabling business environment
- (b) To facilitate access to business development services
- (c) To facilitate informal sector formalization and upgrading
- (d) To promote an entrepreneurial culture
- (e) To promote representative

*Source: GoK, 2012, SME Act 2012*

Several efforts have been made to revitalise the SMEs subsector in Kenya through various policy reforms. Some of the policies have focused on the SMEs subsector, while other policies have partially integrated SMEs issues in various National development plans (Development Plan 1994-1996). Despite the reforms, the policies are inadequate in providing guidance on the establishment of the various SMEs related institutions and regulations. Such condition has been confirmed by poor coordination and existence of various departments in different Ministries handling SMEs Issues. For instance, the Ministry of Trade, Ministry of Labour and Industrialisation, each have a department dealing with the SMEs. Other institutions which are directly involved in the SMEs include the Kenya Industrial Estates, Kenya Industrial Research and Development Institute (KIRDI); Kenya Bureau of Standards (KBS), Kenya Industrial Property Institute (KIPI) among others. The poor coordination has been agitated by lack of directive pointer to support the overall management of the SMEs in Kenya. The inadequacy in the policy pointer has motivated the development of the new policy regime. The policy regime motivated the formulation of the new SMEs Act .It is characterised by important features aimed at contributing to the development of the SMEs in the country. An analysis on the extent at which the proposed Act is aligned to the structures of the county system as proposed in the current constitution of Kenya is thus important given that the Act was formulated before the current constitution was promulgated by the government of Kenya in 2010.

## **2.3: Appraisal of the Proposed SMEs Policy in Kenya**

The Ministry of Labour in collaboration with the SMEs stakeholders developed a Parliamentary Act for SMEs in 2012. The act is expected to oversee the regulation and the development of the sector. The SMEs Act 2012 was formulated as a proposed strategy to revitalise the SMEs sub sector. The enactment of the SME Act is part of the policy

interventions which was envisaged by the Sessional Paper number 2 of 2005 (SP No. 2 of 2005) on the Development of SMEs in Kenya. The objective and purpose of the Act is to consolidate the overall legal and institutional framework. Such framework should promote, develop and regulate Micro and Small Enterprises to achieve certain objectives. The envisaged act focuses on key concerns that directly affect the development of SMEs. The SME Act seeks to consolidate various institutional frameworks for SMEs in a one policy document. The proposed act therefore seeks to consolidate policy formulation, administration & implementation, and regulation in three institutions namely, Department of Micro and Small Enterprises, National Council for Micro and Small Enterprise (NCMSE) and Registrar of Micro and Small Enterprises Associations and Umbrella bodies. The specific institutions as discussed in the proposed SMEs Act are as follows;

- (a) ***Department of Micro and Small Enterprises***; The department of Micro and small Enterprises in collaboration with the other relevant ministries and stakeholders is envisaged to perform Functions like formulating and reviewing policies and programs for micro and small enterprises; Developing infrastructure for micro and small enterprises; Promoting market access and provision of marketing services; Promoting product development and innovation; Capacity building programs for micro and small enterprises; Facilitate technology development, acquisition and transfer; Acquisition of land for micro and small enterprises use; Develop mechanisms, tools and programs for collection of comprehensive data disaggregated by sex, region and age among others in collaboration with key stakeholders to enable proper planning for micro and small enterprise sector.
- (b) ***National Council for Micro and Small enterprises*** (NCMSE); the council is envisioned to improve the coordination of the sector and the other sectors. Specifically, the council is expected to perform functions like Coordinating, harmonising and facilitating the integration of various public and private sector activities, programmes and development plans relating to Micro and small Enterprise sector; Monitoring and evaluating the implementation of existing policies and programmes related to or affecting micro and small enterprises and advise the government on appropriate policies and course of action to be taken. Mobilising the resources for the development of micro and small enterprises and natural environment and opportunities for the development of the micro and small enterprises and Managing the Micro and Small Enterprise Development Fund.
- (c) ***Micro and Small Enterprises Development Fund***; The proposed Act provides for the establishment of a Micro and Small Enterprises Development Fund. The purpose of the fund will be to finance the promotion and development of Micro and Small Enterprises in accordance with this Act; to provide affordable and accessible credit to Micro and Small Enterprises; to finance Capacity Building of Micro and Small Enterprises; and to finance research, development, innovation and transfer of technology.
- (d) ***The SME Act further provides Prominence to Micro and Small Enterprise Associations*** in policy formulation and management of the MSME sector by providing for Registrar of MSE associations who will be responsible for the registration and regulation of the MSE associations, and thereby enhance stakeholder dialogue and representation.

The SMEs Act is the first attempt to increase legitimate participation of micro and small enterprises in the policy formulation by providing a fully-fledged department dealing with the SME sector through the NCMSE, a corporate body, with functions of policy

formulation and sector development alongside other functions that is expected to benefit the sector. Even though the proposed Act provides comprehensive approach to SMEs development in terms of relevant institutions, various institutions envisaged in the SMEs Act are nationwide oriented with no clear framework on how the proposed institutions will link up with the various county specific institutions as proposed in the current constitution.

#### **2.4: Proposed role and functions of the County Government**

Effective governance entails promotion of institutional frameworks that facilitate efficient governance. This will ensure improved central and local government relations. In particular, distribution and exercise of powers or functions, based on subsidiarity is a key element. Other aspects include: cooperation between public and private sectors, including informal sector and communities; cooperation between government and Non State Actors (NSA). While these global attributes of governance have been applied in Kenya, they have not been domesticated and translated into local policies and laws.

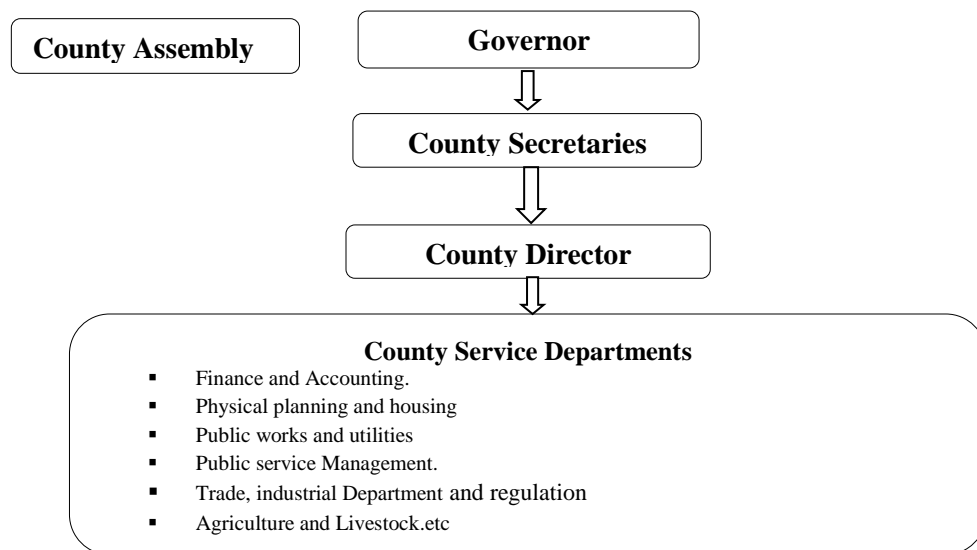
The current constitution provides for the establishment of counties and by, Extension County led institutions and regulations. The county system will be governed by the current County government Act enacted in 2012. The Act is expected to oversee the operation of the county system like enacting respective county legislations related to SMEs development through the county assemblies. The county assembly (as outlined in the County government Act) is expected to approve the budget and expenditure of the county government in accordance with Article 207 of the Constitution, and the legislation contemplated in Article 220 (2) of the Constitution, guided by Articles 201 and 203 of the Constitution; approve the borrowing by the county government in accordance with Article 212 of the Constitution; and approve county development planning. One of the key functions of the county governments is to promote trade development and regulation, including Markets; Trade licenses (excluding regulation of professions); Fair trading practices; Local tourism; and Cooperative societies which imply that county system will be instrumental in resource allocation and planning for the development of SMEs in Kenya.

The county government Act will also be supported by the Urban Areas And Cities Act, No. 13 of 2011. This is an Act of Parliament which is expected to provide for the, classification, governance and management of urban areas and cities. The act is expected to provide for the criteria of establishing urban areas, to provide for the principle of governance and participation of residents and for connected purposes. The legislation is important to the county development as it provides for the establishment of the Citizens foras. The foras are expected to monitor and evaluate the development in the respective counties. Such mechanisms will provide for the enactment of the local led legislations

and policies in the respective counties in Kenya as it provides constructive mechanisms for stakeholder engagement and participation in the policy making process in Kenya. However, it should be underscored that the county government will not be independent in terms of its operation. Article 6(2) of the current constitution describes the governments to exist at two levels as being distinct and interdependent and which should conduct their mutual relations on the basis of consultation and cooperation. This implies that the devolution is not based on the principle of absolute autonomy but instead, on that of inter-dependence and cooperation where there should be intergovernmental relationships between and among governments. Such relationships should be based on and informed by the principles of cooperative governance where there should be mutual consultation between the county and central government.

The county led legislations imply that the participation of citizens in the respective counties shall be mandatory. The County representatives will provide an oversight provision of services, deliberate on proposed annual budget estimates and development plans, monitor development activities and receive presentations, including feedback on issues raised by County citizens. In urban areas and cities, both cities and municipalities will provide similar services depending on their capacity, while towns shall provide services as delegated by respective County governments. The following figure summaries the linkage between the various county structures and how such structure would link up with SMEs subsector through the various county service departments;

**Figure 2: Proposed Structure of the County Government System**



Source: GOK

Given the new structure of governance, the county led SMEs policies in the proposed SMEs legislation should be aligned to the trade, industrial department and regulation



service departments. At the same time, the subsector committee should interface with the other service departments in the county system. It is in this context that there have been various efforts to align operation to the county system, though much more preparation is still needed to establish requisite regulatory and promotional institutions to catalyze local economic development by up scaling the SMEs activities.

The extent at which the new county system contributes to SMEs development in the respective counties depends on how best the current SMEs Act, 2012 is restructured to factor in the administrative changes as outlined in the current administrative structure. There is thus need for each county to develop its SMEs policies based on the local needs and such policies should indicate how the institutional and regulatory framework will link up with the governance structure at the county level under the current constitution. The SMEs Act should thus indicate how the central government, (through the department of MSME )will work with the Trade, industrial Department and regulation service departments at the county level to promote and develop the SMEs. Given that this study has been based on the selected subsectors (i.e. Dairy, Fishing, Irish potatoes and Oranges) in Kenya, It would also be important to understand the regulatory and institutional frameworks for the selected sub sectors in question.

## **2.5: Overview of Specific Sector Policies**

### **2.5.1: Policy and Institutional Framework; Dairy Sub Sector**

The regulatory framework for the dairy industry consists of various laws enacted in a number of legal documents. For instance, the Dairy Industry Act (CAP 336, Laws of Kenya) was first enacted in 1958 .The act established the Kenya Dairy Board (KDB) to regulate the industry. The main functions of the KDB include (i) licensing of retailers, (ii) controlling of milk movement and quality, and (iii) appointment of dairy inspectors. Despite the regulatory role in the industry, information from the literature depicts that the KDB has inadequate resources in terms of personnel, laboratories and operational funds to effectively implement its mandates (Muriuki et al, 2011,).

Another important regulation is the Co-operative Development Act (Cap 390, Laws of Kenya), which governs all dairy marketing co-operatives. The Act was revised in 1997 to ensure greater farmer control, and less government intervention. In early 2004, the Act was revised to promote the contribution of co-operatives to economic recovery and development. Despite good performance in many cases, most dairy co-operatives have not allowed sufficient farmer participation in their management. The Companies Act (Cap 486, Laws of Kenya) is another important legal and policy framework that provides for registration of companies engaged in various business transactions in the milk supply chain. These include (i) registration and licensing of milk processors, (ii) licensing of

retailers, (iii) regulations of milk transportation, and (iv) inspectors' regulations (by KDB). Violation of these regulations is liable to prosecution.

In terms of institutions in the industry, the Kenya Bureau of Standards (KEBS) promotes adherence to standards in industry and commerce, and to undertake educational work in connection with the standards. The KEBS was established under the Standards Act (CAP 496, Laws of Kenya). These standards are intended to safeguard both consumers and producers for product quality and for fair commercial dealings. KEBS has specified the methods of analysis to be followed for various products (including dairy products) and has powers to enforce these standards even by prosecution.

There are also other few agricultural credit institutions, which help in the financing the dairy subsector. The main sources of credit include commercial banks, whose credit is usually unsuitable for farming, and micro-finance institutions, which are more popular with small and medium enterprises (SMEs), including smallholder dairy farmers. However, the use of credit by small holder farmers has been constrained by stringent collateral requirements which do not favour the SMEs in the dairy subsector. Other relevant institutions which work on dairy issues include NGOs such as Land O'Lake, Heifer Project International, Techno Serve, Action Aid and church-based organizations. Land O'Lake, Heifer Project International and Techno Serve have become very active in dairy development in East Africa.

### 2.5.2: Policy and Institutional Framework; Irish Potato Sub sector

**Box 5: Functions of the NPCK**

- (a) To create an enabling environment for effective and efficient potato value chains for growth and development of a self-regulating potato industry
- (b) To build a cohesive potato industry in order to promote synergies and minimize duplication for efficient use of resources through enhanced public private partnerships
- (c) To promote best practices for quality standards, improved yields and enhanced value addition in order to thrive in local, regional and global markets.
- (d) To create a platform for information management and capacity building for the various potato value chain actors
- (e) To mobilize and effectively manage resources for the growth and stability of the organizations and the prosperity of the industry
- (f) To identify and mainstream crosscutting and emerging issues within the potato industry

Source: <http://npck.org/>

The Irish potato industry is supported by the National Potato Industry Policy of 2005. The

objective of this policy is to raise productivity in the industry through the provision of appropriate technology and services; develop and implement processes that will lead to increased empowerment of growers and other stakeholders; develop and promote the use of standard packaging and weight measures which was put at 100 kgs per bag. The industry is also regulated by the adaptive by law legal Notice No 44 of 2007. The legal notice stipulates that all the local authorities should enforce a maximum size (110 kgs) standard bag for potatoes. However the effective implementation of this law has been hampered by poor coordination among the Ministry of Agriculture (MOA), the police, and the local authorities. According to the National Potato Policy, the Ministry of Agriculture (MOA) is the nodal institution which coordinates the implementation of the agricultural policies. The specific functions of the ministry include developing and overseeing the implementation of the agricultural policy ,crop production and marketing, land use policy, pests and diseases control; agricultural research, information management for agricultural sectors among others. The MOA has regional branches which supervises the implementation of the government policies at the grass root level. The Kenya Agricultural Research Institute (KARI); is also mandated to carry out research activities covering agriculture where Potato research is done mainly in KARI Tigoni centre. However, other stations and substations are also highly involved including the International Potato Centre (IPC). These institutions develop, promote and avail quality seed potato to seed growers.

The sub sector is also regulated by the Horticultural Crops Development Authority (HCDA). The HCDA is in charge of regulatory and advisory in policy making, production, marketing, post-harvest, processing and consumption. The authority is expected to collaborate with other organisations involved directly or indirectly with the potato industry. It is also expected to develop, promote and facilitate potentials of marketing strategy, production strategy and post-harvest chains by exploitation of national, regional and international potential of farmers, exporters, importers and consumers. The Kenya Plant Health Inspectorate Services (KEPHIS) also coordinates all matters related to pests and disease control; monitor the quality and levels of toxic residue in plants; soils and products; administer plant breeder's rights, undertake inspection, testing, certification, quarantine control, variety testing and description of seeds and planting materials among others. Agricultural Development Corporation (ADC) was also established under the agricultural Development Corporation Act, Cap.444 to be in charge of germplasm for crop seed and livestock. The KEBS is also important in promoting standardisation in commerce and industry through development of standards, quality control, certification and metrology. KEBS has the mandate of establishing and enforcing quality standards of all products on the Kenyan market whether locally produced and imported.

The Kenya Industrial Research and Development Institute (KIRDI) is also mandated to

undertake research and development in industrial and allied technologies. KIRDI is expected to collaborate with the MOA and other stakeholders in technology development and transfer in processing of horticultural produce. Such technological development could include enhancement of value addition processes. The Local Authorities on the other hand are involved in the development of markets and market infrastructure for produce in their areas of jurisdiction. They collect fees and charges from agricultural produce and are expected to plough back some of these revenues in the maintenance of rural access roads and in the maintenance and development of new markets. The operations of the local authorities are governed by the local Authorities Act, Cap 265.

Another key institution is the National Potato Council of Kenya (NPCK). The Council was formed as a result of a transformation of the Potato value chain development committee (VCDC) which had been formed through the initiatives of -PSDA and MOA. The NPCK was registered in August 2010 and launched on 25th November 2010. The NPCK is envisioned to move potato industry forward and develop it through organising its social, political, economic and agronomic environments; building synergies and coordination of all stakeholders' efforts. The Council intends to use pragmatic approaches of interrogating the processes in the subsector to revamp and develop the subsector into a self-regulating and robust industry.

There are also farmer groups and association which are key in revitalising the subsectors' performance. The potato industry have been under the auspice of the key farmer groups like the Kenya National Potatoes Farmers Association (KENAPOFA), which is a member based organisation formed in 2003 and registered as Kenya Potato Growers and Marketing Association (KPGMA). The main mandate of KENAPOFA is to spearhead lobbying and advocacy activities for the strengthening of national potato industry to competitive international levels. KENAPOFA is expected to voice out the concerns of farmers in various areas. However, the extent at which KENAPOFA delivers its expected mandate depends on the strength of its presence on the ground.

### **2.5.3: Policy and Institutional Framework; Orange and Pineapple Subsectors**

The horticulture industry is governed by various public and private institutions with legal and institutional mandates. The ministry of Agriculture provides overall policy direction, regulation and operational direction. The industry which is regulated by the Horticultural Crops Development Authority (HCDA) was established under the Agriculture Act, (Cap. 318) through the HCDA order, 1967 (Legal Notice No. 229/1967). HCDA has the mandate to facilitate the development, promotion, coordination and regulation of the horticulture industry in Kenya.

Other institutions include the Kenya Plant Health Inspectorate Services (KEPHIS) which was established by the KEPHIS Order, 1996, under the State Corporations Act (Cap 446).

KEPHIS has the responsibility of regulating plant health issues relating to phytosanitary and seed matters; the KARI with the national mandate of carrying out research the fields of agriculture; the Pest Control Products Board (PCPB) which was established under the pest control products Act (Cap 346). The key functions of the (PCPB) are to regulate the importation, exportation, manufacturing, distribution and usage of pesticides; The Kenya Industrial Research and Development Institute (KIRDI) was established under the Science and Technology Act (Cap 250). It is mandated to undertake research and development in industrial and allied technologies; and the Kenya Bureau of Standards (KEBS) which was established under the Standards Act (Cap 496).

#### **2.5.4: Regulatory and Institutional Framework; Fishing Industry**

The fishing industry is regulated by the Fisheries Act (Cap. 378). The Act sets up the basic principles for the development, management, exploitation, utilisation and conservation of fisheries. The industry is also controlled by the fisheries (Beach Management Units) regulations, 2007 (L.N.No.402 of 2007) which make provision for the establishment and administration of beach management units. The beach management units are expected to strengthen the management of fish-landing stations, fishery resources and the aquatic environment; the support of sustainable development of the fisheries sector; ensuring the achievement of high quality standards with regard to fish and fishery products; and the prevention or reduction of conflicts in the fisheries sector. The regulations also require authorised fisheries officer to draft plans setting fisheries management and conservation measures.

Another key regulation in the industry is the Prawn fishery management plan 2010 (L.N.20 of 2011), adopted under section 5 of the Fisheries Act. The regulation empowers the director of fisheries to prescribe measures with respect to the prawn fishery in the geographical marine area covered in the plan. The principle objective of the plan is to ensure a biologically sustainable and economically viable prawn fishery. Other regulations in the fishery sector include the wildlife Act of 2002; Kenya Forests Act, 2005; The Maritime Zones Act; Environmental Management Act of 1999; Local Authority and Planning Act; Water Act; Maritime Authority Act and the Kenya Ports Authority Act.

The fisheries department is the primary agency responsible for fisheries management and development in Kenya. The department is responsible for the development and enforcement of fish handling standards that minimise post-harvest losses. However, lack of enforcement capacity within the fisheries department limits the effectiveness of expected interventions within the industry. Another key institution is the Kenya Marine and Fisheries Research Institute (KMFRI) which is a State Corporation in the Ministry of Fisheries Development of the Government of Kenya. The institute is mandated to conduct aquatic research covering all the Kenyan waters and the corresponding riparian

areas including the Kenyan's EEZ in the Indian Ocean waters. Such research is aimed at generating information and data to guide the country in undertaking sustainable exploitation management and conservation of its fisheries and aquatic resources as a means to achieving food security.

## **2.6: Approaches and Key Lessons to Institutional and Regulatory Framework for SMEs: A Case of South Africa and India**

### **2.6.1: India**

#### **2.6.1.1: Regulatory and Institutional Framework**

Unlike in Kenya, the overall regulatory framework for the SMEs in India is driven by specific SMEs act which specifies the key institutional linkages for effective coordination. The Micro, Small and Medium Enterprise Development Act No. 27 of 2006 is the overall SMEs strategy which has been instrumental in revitalising the performance of the SMEs sub sector in India. The Act generally aims at enhancing and promoting competitiveness of micro, small and medium enterprises. The act establishes the necessary structure for overseeing and regulating the development of the SMEs in India. The implementation of the Act is supported by several public institutions and agencies. At the national level, the SMEs sector is coordinated by the Ministry of Micro, Small and Medium Enterprises .The Ministry is the nodal institution responsible for policy formulation, promotion, development and protection of small scale industries. It also monitors the execution of the formulated policies to ensure their effective implementation.

The Ministry of Micro Small and Medium Enterprises designs and implements relevant policies through its field organisations for the promotion and growth of the small and tiny enterprises, and village industries in India. The Ministry also performs policy advocacy on behalf of the Small Scale Industries (SSI) sector with other stakeholder Ministries/Departments such as Finance, Commerce, Law, Labour and Environment so as to ensure due consideration for SMEs in their respective policies. The implementation of policies and various programmes/schemes for providing infrastructure and support services to small enterprises is supported and undertaken through central and state Government departments, agencies and autonomous institutes. The Ministry of Micro and Small enterprise is supported by various institutions. The institutions assist in the implementation of the SMEs development Act. The key institutions /state governments which support the implementation of the SMEs development Act include;

**The Small Scale Industries (SSI) Board;** this is an apex or principal advisory body constituted by the government to facilitate co-ordination and inter-institutional linkages for the development of the sector, and to provide advice on all issues pertaining to the SSI sector. The Minister is the Chairman of the Board which comprises of State

Industries Ministers, MPs, Central Government Department Secretaries, and Heads of financial institutions, industry associations and eminent experts in the SSI field.

**The Small Industries Development Organisation (SIDO);** SIDO is an organisation which assists the Ministry in the formulation and implementation of policies and programmes for the promotion and development of the Small Scale Sector. It liaises with central and state government departments and agencies, financial institutions and other key small scale sector intermediaries, encourages capital and technology flows, and provides a comprehensive range of common facilities, technology and competitiveness support services, and marketing assistance through a network of Production Centre and Field Testing Stations. It also supervises Tool Rooms, Product and Process Development Centres and Training Institutes which are run as autonomous bodies. At the regional level, commissioners and directors of industries implement policies for the promotion and development of small scale, cottage, medium and large-scale industries. Other regional level agencies include state infrastructure development corporations, state cooperative banks, regional rural banks, state export corporations, agro industries corporations and handloom and handicrafts corporations. At the grass root level, NGOs play an important role for the development of tiny and cottage units.

**The National Small Industries Corporation (NSIC):** This is a public sector undertaking of Small Scale Industries (SSI) responsible for promoting, assisting and fostering the growth of small scale industries. It helps small scale industries through its various schemes such as: equipment purchase and leasing; domestic and export marketing; single point registration; procuring and supplying raw materials at concessional rates; conducting technical training and entrepreneurship development programmes in its various technical service centres; and assisting competent small businesses in participating in government procurement programmes. It has also established software technology parks for small scale businesses and facilitates software exports. It provides loans on concessional terms for the development of rural and backward areas and for disadvantaged smaller businesses.

**The Small Industries Development Bank of India (SIDBI)** serves as an apex financial institution for promotion, financing and development of Indian industry in the small scale industries sector where individual business investment in plant and machinery and tourism sectors and also to the professional and self-employed persons setting up small-sized professional ventures. It focuses on plugging gaps in the financial marketplace and offers a wide range of financial products either directly or indirectly and state level financial institutions.

Three training institutes have also been established by government to develop and provide training, research and consulting services for small-scale entrepreneurs. These

training institutes include *National Institute of Micro, Small and Medium Enterprises (NIMSME)*, *Hyderabad Indian Institute of Entrepreneurship (IIE)*, *Guwahat; National Institute for Entrepreneurship and Small Business Development (NIESBUD)*, *NOIDA*. Though the central government undertakes many SSI-related initiatives, most states also have their own SSI departments and provide entrepreneurial, financial, developmental and infrastructure support to SSIs. Industry associations provide important operational and institutional support to the SSI sector and offer a common platform to raise industry-related issues.

**Business Associations:** The Government policies have stressed the increasing role of Industry Associations in the setting up of common facilities and other ventures in the area of technology, marketing and other support services. Some of the major broad-based associations include: the Confederation of Indian Industry; the Federation of Indian Chamber of Commerce and Industry; the PHD Chamber of Commerce and Industry; the Associated Chamber of Commerce & Industry of India; and the Federation of Indian Exporters Organization. Associations which are more closely focused on small business issues include the World Association for Small & Medium Enterprises; the Federation of Associations of Small Industries of India; the Consortium of Women Entrepreneurs of India; Laghu Udyog Bharati; and the Indian Council of Small Industries.

**Public-Private Dialogue:** The central government has placed particular emphasis on involving all key stakeholders in the development of its policies and programming for small scale businesses and village industries. This is exemplified in the Small Scale Industries Board which is a principal advisory body responsible for providing advice to the central government on all issues related to the SSI sector and comprises representatives of all key stakeholders as well as eminent experts in the SSI field.

**The Khadi and Village Industries Commission (KVIC).** This is a statutory organization responsible for planning, promoting, organising and assisting in the implementation of programmes for the development of Khadi (handloom) and village industries including those based on minerals, forestry, agricultural, polymers and chemicals, textiles, services, engineering and non-conventional energy. To achieve this it finances eligible businesses and institutions, trains personnel, acquires and supplies raw materials, assists in product R&D, and encourages industrial cooperation. It operates through a huge network of State/UT KVI Boards, registered institutions and cooperatives, departmental units and sales outlets. KVIC undertakes training activities through its departmental and non-departmental training centers. Marketing is taken up through its 9 departmentally-run Khadi Gramodyog Bhavans located in urban areas and 7,050 institutional/retail sales outlets located at different parts of the country. KVIC also makes available quality raw material to khadi institutions through its six Central Sliver Plants (CSPs).The Union Government through the Ministry of Micro, Small and Medium



Enterprises (MSME) provides funds to KVIC for undertaking its various activities under Plan and Non-Plan heads.

## **2.6.2: South Africa**

### ***Regulatory and Institutional Framework***

The government of South Africa has formulated various policy regimes to streamline the SMEs sector. The development of the SMEs sector can be traced back from the National Small Business Act, No. 102 enacted in 1996. The Act provided for the establishment of the National Small Business Council and the Ntsika Enterprise Promotion Agency. The Act also provided guidelines for organs of state in order to promote small business in the Republic.

The National Small Business Amendment Act, 1996, was later amended in 2004 to repeal all the provisions pertaining to Ntsika Enterprise Promotion Agency and to provide for the establishment of the Small Enterprise Development Agency; to make provision for the incorporation of the Ntsika Enterprise Promotion Agency, the National Manufacturing Advisory Centre and any other designated institution into the Agency to be established. There were further developments spelt out in 2005 where the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa, was published. The paper encouraged the establishment of a support framework, in form of enabling legislation, institutional reform, leveraging financial and other forms of assistance, for small business development. The enactment of the legislations facilitated the establishment of various institutions to oversee the implementation of the SMEs related legislations. The key institutions responsible for the implementation of the national small business amendment Act include;

**Department of Internal Trade and Industry:** The Department of Trade and Industry (DTI) has the primary responsibility to formulate, coordinate and monitor the national policies related to small and micro businesses. The DTI is the coordinating body for all policies related to small business sector and for all SME-support programmes directly or indirectly assisted by the government. It is also responsible for the co-ordination of small business strategies pursued by the provincial governments within the national policy framework. DTI directly administers some specific programmes targeted to smaller businesses such as the SME development program which provides investment grants to qualifying businesses and a wide variety of technology and export assistance services.

**Small Enterprise Development Agency (SEDA):** SEDA was established with 80 percent focus on the small and micro business sector. SEDA was established in December 2004 as an agency under the department of trade and industry. The establishment was done by merging three organisations; Ntsika Enterprise Promotion

Agency, National Manufacturing Advisory Centre (NAMAC) and the Community Public Private Partnership Programme (CPPP). The GODISA Trust and the technology programmes were integrated into SEDA in April 2006, becoming SEDA Technology Programme (STP). SEDA provides business development and support services for small enterprises through its national network in partnership with other role players in the small enterprise support. SEDA also implements programmes targeted to business development in areas prioritised by the Government.

**The South African Micro-Finance Apex Fund (SAMAF):** The South African Micro-Finance Apex Fund was set up to act as a catalyst for the development of an effective micro-finance sector. SAMAF's strategic goals include increase access to finance; Increase capacity and sustainability of finance institutions and to Increase micro-finance networks and partnerships.

**Khula Enterprise Finance Limited (Khula);** The company is a wholesale finance institution which operates across the public and private sectors, through a network of channels to supply much-needed funding to small business.

**National Empowerment Fund (NEF)** was established by the National Empowerment Fund Act No 105 of 1998 (NEF Act). NEF is a driver and thought-leader in promoting and facilitating black economic participation by providing financial and non-financial support to black empowered businesses, and by promoting a culture of savings and investment among black people. The operations of the NEF are governed by the Public Finance Management Act No 1 of 1991 (PFMA), including the National Treasury Regulations, the King III Report on Governance for South Africa and the Protocol on Corporate Governance in the Public Sector, 2002.

**Industrial Development Corporation (IDC)** was set up to promote economic growth and industrial development. The IDC's primary objectives are to contribute to the creation of balanced, sustainable economic growth in South Africa and on the rest of the continent.

**Business partners limited:** Business Partners Limited was formed in 1998 from the Small Business Development Corporation (SBDC) to focus on small and medium enterprises with funding needs from R150 000 to R15 million (South Africa Business Guidebook, 2002/2003). They provide finances for start-ups, expansions, take-overs, management buyouts, management buy-ins and leveraged buyouts. They are one of the more successful SMME support Organisations.

**Local Business Service Centre (LBSC):** It is a partnership between government, local communities and the private sector. At national level, it is focusing on job creation, wealth creation and transformation and empowerment. Its core services are information,

training, counseling and advisory services and networking and linkage. At local level, it focuses on increasing access of locals to SME support services and opportunities for participation in local development and increasing the flow of resources (money and expertise) into the local community.

**Technology for Women in Business (TWIB)** is an initiative aimed at women in the market sectors such as: information and communication technology, textile, clothing and crafts, agriculture, food and agro-processing; construction and infrastructure; tourism; mining and energy. This program is under the auspices of the CSIR that act as an agent for the DTI and assist women in all their needs to start the business, whether independently or in a partnership ([www.thedti.gov.za](http://www.thedti.gov.za)).

### **2.6.3: Lessons from South Africa and India Institutional Framework**

It is evident from the above two case studies on institutional structure that the governments of India and South Africa have developed a clear and formal institutional structure to spearhead SMEs development. The mechanisms spell out formalised system which provides avenue for private and public dialogue for SMEs consultation, framework for stronger SMEs association and stronger institutional linkages and coordination. The structural framework on SMEs regulatory and Institutional system is summarised by the following key features.

The table also confirms existence of stronger institutional coordination among the various government institutions and agencies both at the national and regional level. For instance, a country like India has a direct forum for Public –Private Partnership where fundamental constraints inhibiting the performance of the SMEs can be discussed directly with the relevant authorities. This implies that there is formal bottom up approach in addressing the challenges facing SMEs in India. A further comparative analysis also confirms the existence of strong business associations at the grass root level. Such associations are important in advocating for policy reforms at the local level. There are further indications of institutional distribution at the local level in different states. Further evidence also affirms the existence of SMEs related specific financial institutions.

**Table 3: Key Features; Institutional and Regulatory Framework for India and South Africa**

<b>Indicator</b>	<b>South Africa</b>	<b>India</b>
<b>SME Act</b>	Existence of National Small Business Amendment Act,1996	The Sector is guided by the Micro, Small and Medium Enterprise Development Act, 2006.
<b>Private-Public Dialogue Mechanism</b>	There is recognised mechanism which links the SMEs to the Department of Internal Trade.	Occurs through the Small Scale Industries (SSI) Board; an apex or principal advisory body constituted by the Government to facilitate co-ordination and inter-institutional linkages for the development of the sector, and to provide advice on all issues pertaining to the SSI sector.
<b>Coordinating Institution</b>	Department of Internal Trade and Industry in collaboration with the Small Enterprise Development Agency(SED A)	Ministry of Micro, Small and Medium Enterprises and the Small Scale Industries (SSI) Board.
<b>SME Financing Mechanism</b>	There is South Africa Micro Finance Apex Fund to enhance increase in access to finance.	The Small Industries Development Bank of India (SIDBI).
<b>Framework for SMEs Association</b>	There is recognised SMEs association, SED A under the Department of Internal Trade and Industry	The Small Industries Development Organisation (SIDO); SIDO is an organization which assists the Ministry in the formulation and implementation of policies and programmes for the promotion and development of the Small Scale Sector.
<b>Mechanism for Value Addition</b>	Technology for women in Business for enhancing value addition activities at the local level. It act as agent for Department of Trade and Industry There is also local Business service Centre which is a partnership between the government, local communities and the private sector	Occurs through the various training Institutes and The Khadi and Village Industries Commission (KVIC)
<b>Regional Distribution of Institutions</b>	There is local presence of all the institutions to support the development of the SMEs at the local level	There is local presence of all the institutions to support the development of the SMEs at the local level

*Source: Authors Deduction.*

### **3.0: Key Study Findings**

#### **3.1: Fishing Industry**

Focus group discussions were conducted in both Kwale and Homabay Counties to understand the existing challenges facing the fishing industry in the two countries. The focus group discussions were composed of stakeholders from the government ministries, the fish farmers both for aquiculture and sea farming. The field visits confirmed the potential contribution of the industry to the welfare of the population. Even though there are potential contribution of fishing industry to the welfare of the population within the Kwale and Homabay counties, a comparative analysis based on the findings reveals key common challenges from the two countries. The existing challenges are linked to production; marketing and institutional framework.

### 3.1.1: Production and Marketing Challenges

#### a) *Exploitation by middlemen*

Comparative analysis reveals that the fishermen in Homabay and Kwale County experience high exploitation by middlemen. Fishermen are forced to take up prices offered by middlemen who often come up with excuses on poor market situation and in most cases buy fish on credit from the fishermen. For instance, during the research period in Homabay, the prices for 1Kg of fish had dropped to Sh80/kg, from Sh350/kg. The quantity is sold for Ksh 1800 in other markets by middle men. This can also be confirmed by the protest from fishermen farmers which occurred two weeks after the field work discussion in Homabay [see box 6 below].

#### **Box 6: Fishermen demand fish prices increased**

Over 800 fishermen in Homa Bay County have stopped fishing to protest at low prices offered by merchants and middlemen. The fishermen operating at all beaches in the county held a demonstration in Mbita town to protest at what they termed reduction of fish prices by manufacturing companies. They said prices have dropped over the last one month with a kilo of fish going for Sh80, from Sh350. Led by Homa Bay County Beach Management Unit chairman Edward Oremo and area Nile Perch Traders Network Abisalom Odira, the fishermen accused manufacturing companies of disregarding them by lowering prices. "We appealed to the companies several times to hike the prices but they have not heeded our pleas. There is no business where buyers can sit on their own to decide prices they want without consulting sellers. We have now opted to hold the demonstration to enable our voices to be heard," Oremo said on Tuesday. The fishermen vowed not to fish until the Government holds a consultative meeting with them to address their grievances. They accused the Government of allowing the companies to import fish from neighbouring Uganda and Tanzania, a situation that culminated in reduction of fish prices. "It is sad that the Government has declined to cushion us from unscrupulous importation of fish, which now makes buyers feel that they can control prices," Odira commented. The fishermen said the fish bought at Sh80 is sold at over Sh1,800. "The cost of living has escalated and we are forced to purchase fishing equipment at very high prices yet prices of our products keep going down," said Samwel Osewe, chairman of the Homa Bay County Lobby and Advocacy Committee. The fishermen said they must sell their fish for not less than Sh400. See: [http://www.standardmedia.co.ke/?articleID=2000060656&story\\_title=Fishermen-demand-fish-prices-increased](http://www.standardmedia.co.ke/?articleID=2000060656&story_title=Fishermen-demand-fish-prices-increased)

- b) *Inadequate processing and storage facilities*; Inadequate processing and storage facility was asserted to be a key challenge to enhancing effective performance of fishing industry in both Kwale and Homabay Counties. There is also inadequate fish processing plant /technology for aquaculture products which could enable the farmers to undertake value addition to their produce. Such condition has contributed to exploitation by farmers where fishermen are forced to sell their produce at lower prices to the middlemen due inadequate storage and processing facilities at the county level.

- c) *Poor road network and sanitation facilities*; There are no proper access roads linking to the beaches. In many cases the fishermen have to carry their catch for a long distance to the main roads either by motor bikes or bicycles which end up escalating the production cost. Inadequate Sanitation facilities also affect the productivity of fishing industry where fishermen are faced with the scarcity of sanitation facilities. In addition, the conditions at the landing sites are poor, lacking potable water supply, clean auction areas and toilet facilities which are a key challenge to value addition of the fish products.
- d) *High cost of inputs*; the ability to improve the productivity of the fishing industry is affected by high cost of accessing fingerlings. The fish farmers are not able to easily access fingerlings at a reasonable cost. This is attributed to the high cost involved in accessing the fingerlings hence some farmers are forced to re-use fingerlings within their pond as a way of mitigating the cost involved in getting certified seeds.
- e) *Inadequate finance*: The problem of inadequate capital was cited by the stakeholders as a hindrance to the establishment of larger ponds as they rely on small fish ponds which hinder their productivity potential. The inadequate finance is attributed to the complex requirement in the process of accessing finance where some financial institutions require the farmers to form Sacco's or registered groups before they can access credit facilities from the financial institutions. However, this has been a challenge as those with interest in fish farming are few in some areas like in the case of Kwale County and had not yet bought the idea of forming Sacco's.
- f) *Inadequate extension services*: views from stakeholders also confirmed that the ability to enhance information sharing among the farmers and the government officers is inhibited by the existence of the Weak extension officers. The discussions from the field work findings also revealed that the services of the extension officers are never inadequate to attend to their needs in cases of invasion by pest in their ponds. In many cases, farmers have to meet the cost for fuel to access the service of extension officers when urgently needed.
- g) *Inadequate quality fishing materials*: Most fishermen experience low catch from the sea .This was attributed to the continued use of poor state fishing gears. Fishermen evidently use old tattered fishing nets and small canoes which could not effectively catch fish and withstand large tides.
- h) *Limited market information*: Field work findings also affirmed inadequate market information for fishermen as a key hindrance to the development of the fishing industry in the respective counties. This is a big challenge to fishermen as they are deprived of better opportunities where they can make better sale on their catch.

### **3.1.2: Regulatory and Institutional Challenges**

- a) *Weaker cooperative societies/association*; Most fishermen experience limited awareness on the potential benefits of forming cooperatives as a way of enhancing

their opportunity to access credit facilities to facilitate the expansion of their fishing potential and purchase of processing equipment and marketing of their products. The large scale oriented private sector is organised under the Kenya Fish Processors and Exporters Association. The association has helped in self-regulation, marketing and interfacing with the government. However, there are no national organizations for local artisan fishermen and/or SMEs traders.

- b) *Poor enforcement of legislations in the fishing industry:* Even though the beach management Units (BMU) are intended to regulate the fishing industry, the field work findings affirmed limited buy in on the concept of the Beach Management Units (BMU). Most stakeholders felt that there is limited recognition of the BMU concept as a mechanism for regulating the fishing activities. Such perception has affected the overall regulation of the SMEs at the beach level. It was also felt that the fishery Act is lenient on enforcing penalties to offenders.

### **3.1.3: Mechanisms for Value addition and innovation activities at the county level**

Generally, the fieldwork findings depict limited value addition activities in the fishing industry from the respective counties. There are potential channels for value addition which could be explored by the county governments. The potential value addition channels/mechanisms include using air bladder to make fish leather; animal feed from ground bones, local fillet production as most of the farmers sell unprocessed fish to the middlemen, using fish scales to produce manure / fertilizer and chicken feeds, making Biogas produced from fish products waste, and, fishing picnic for tourism attraction.

The information collated from the field confirmed existence of various efforts to enhance value addition activities in the fishing subsector. For instance, the fieldwork findings indicate that many researchers have been employed to work on the component so that fishers can fetch good value from their produce in the Homabay County. The Lake Victoria Research (VicRes) Initiative (a regional collaborative-multidisciplinary research programme of the Inter-University Council for East Africa) has undertaken value addition studies on “dagaa” to enhance returns from the fisheries. Among the value addition process identified through this initiative include grinding dagaa to powder as a way to make children food, porridge and ingredient to bring some flavor, deep frying to bring out some delicacy.

Drying racks have also been placed in fish landing stations and Bandas in many beaches. There are demonstration units of solar tent drying racks in some beaches including Luanda Rombo and Litare in Rusinga Island being implemented by Women in the Fishing Industry Programme (WIFIP) with the support from the European Union. In addition to the pioneering the solar tent drying racks for dagaa, WIFIP is also undertaking capacity building to women on hygiene processing of dagaa within two (2) beaches in Homabay County through seminars to women fisher folk. They also undertake an on-

going radio lesson in vernacular on the processing of dagaa every Tuesday at 7.00pm. The process involves washing dagaa with water guard to maintain its whiteness for six (6) months followed by drying in the solar tents for six hours and then either frying or directly undertaking packaging with Kenya bureau of standards quality mark packets.

Under the vision 2030 programme, the Ministry of fisheries development is also supporting the establishment of more solar tent drying racks for dagaa along the beaches within the Homabay County. The objective of this initiative is to improve on the quality through high hygiene standards of handling fish product to avoid contamination and to enhance taste so as to increase demand and fetch better prices within the local super markets across the county. There are also efforts to establish more fish landing 'Bandas' sites and to re-instate the old ones through the Beach Management Units (BMUs) as a way to facilitate grading, storage and marketing of Nile perch and tilapia and to get rid of undersize. The ministry has also initiated the Mbita Ice plant and installed machines for filleting. The process of establishing complete fish processing center in Nyandiwa (over 98% complete) is also under way. The initiative was put up by the support from the European Union (EU) and government of Kenya. This is to facilitate the processing of ice, filleting, packaging, cold storage and chill rooms.

On the other hand, in the case of the Kwale County, the ministry of fisheries development is yet to fund the construction of 300 fish ponds in Kwale County covering Msambweni, Kwale and Kinango districts in a bid to improve the income of the area residents. The electrification has already been done in the villages which can easily be extended to cover the beaches. Provision of electricity along the beaches will not only enhance security but will also provide avenue for ice production needed for the preservation of fish to minimize on their Perisability, creating window for establishment of processing units of fish products along the beaches which will open up more job opportunity to the locals. Presence of Kenya marine research institute (KEMRI) in the county and within the GAZI beach locality and the proximity of fisheries officers through BMU is also an opportunity for the fishermen to learn on best practices and more so in engaging in value addition processes including the use of fish processing facilities to improve on their out puts.

The above expose affirms the existence of the ongoing value addition initiatives being implemented to enhance value addition in the respective counties. Even though there are efforts to enhance value addition activities in the two counties, the existing potential have not been fully exploited in the respective counties. The Homabay County does not have training institute to impart skills on value addition techniques at the county level. Most of the farmers are selling unprocessed fish to middlemen based in Nairobi and potential byproducts have not been utilised to enhance value addition activities in the respective counties. This implies that county led SME policies should be streamlined to integrate



regulations and institutional framework. Such frameworks should be aimed at exploiting the underutilised and potential value addition activities in the respective counties.

### **3.2: Irish Potatoes Sub Sector**

An assessment of the potato production and discussions with various stakeholders in Bomet and Kiambu counties revealed that most farmers have not embraced potato growing as a business enterprise. This perception was prevalent in Kiambu County where most farmers in the region have preferred dairy farming to Irish potato farming. The growing trend have contributed to the neglect of the subsector despite its potential contribution to the county's socio-economic development. However, the two counties had common cross cutting experiences ranging from production, marketing, regulatory and institutional challenges. The following are the common challenges facing the two subsectors in the respective counties;

- a) *Lack of institutionalised system for seed development, multiplication and distribution to farmers;* Limited seeds for farmers were raised by most farmers as a key bottleneck to the development of the Irish potato industry. In some instances, farmers use seed varieties not suited to market needs. Most farmers rely on two seed multiplication centers in KARI Njoro and Tigoni which are not adequate in supplying certified seeds since .KARI center is only able to meet 4% of the total seed demand.
- b) *Poor road infrastructure:* Another key constraint cited by the farmers during the focus group discussion include poor rural access roads which limits their ability to access markets. This has contributed to low farm gate prices, high transportation cost and reduced margins. In order to facilitate access and transportation of produce to the markets, it is important to improve and maintain conditions of the access roads in small holder producing areas within the counties.
- c) *Inadequate extension officers:* The number and technical knowledge on the part of the MoA extension staff remains limited. This has contributed to Poor information access and transfer .The delivery of extension services could best be complimented through partnerships with private sector services providers including NGO's and farmers organizations in the respective counties.
- d) *Low returns from farms produce:* The return on the Irish subsector from the respective counties is also affected by Poor produce quality. The poor produce quality is attributed to inadequate technical knowledge on good agricultural practices on the part of small holder farmers. The produce quality is also affected by the high incidence of pest and diseases on the crop. In addition, most farmers lack the knowhow on how to identify and manage pests and diseases leading to high post-harvest losses. Besides, still many farmers

do not practice crop rotation on their farms to reduce the spread and prevalence of the pests and diseases.

- e) *Inadequate access to finance:* Interviews with the various stakeholders and information collated from the focus group discussions confirmed inadequate access to credit to enhance the production activity as one of the key constraint to the development of the fishing industry. The limited access to finance is attributed to stringent requirements imposed by the financial institutions, which requires collateral, formation of business groups and reluctance on their part on account of perceived risk associated with small holder farmers.

### **3.2.1: Regulatory and Institutional Challenges**

- a) *Weak producer associations:* Even though KENAPOFA has presence in both Kiambu and Bomet counties; concerns from various stakeholders from the Irish potato industry depicts that the organisation is still nascent and need to be strengthened to take up its role in assisting the farmers. Discussions also confirmed that most farmers are registered in various farmer groups but such groups do not address their interest. For instance, farmers are not informed or engaged in the activities of KENAPOFA despite of the annual fee subscriptions made by the farmers to the association. However, field visits and discussions with the various stakeholders confirmed that the producers in Bomet County are more organised in terms of association as compared to those of the Kiambu County.
- b) *Inadequate formal Private –Public Dialogue consultative mechanism;* Discussions with various stakeholders confirmed that there is limited formal mechanisms for stakeholder consultation. This is due to lack of well organised producer groups to mobilize producers in a formal producer association especially in Kiambu. Eventhough there is business stakeholder forum in Bomet County; most stakeholders felt that there is limited stakeholder consultation during the policy making process in the County. This implies limited approach regarding bottom-up mechanism in policy making process.
- c) *Poor enforcement of agriculture legislations;* The legal notice No 44 on standard bags (110kg) has not been effective as was envisioned to regulate the standardization in the Irish potato industry. The farmers have been left to sell bulky produce at lower prices. Such weakness in Law enforcement is attributed to poor coordination between the local authorities and the Ministry of Agriculture from the respective counties.

### 3.2.2: Mechanisms of Value Addition and Innovation activities

#### *Possible Key Irish Potato Products*

- French Fries.
- Potato Crips
- Potato Floor
- *Potato starch can also be used by the pharmaceutical, textile, wood, and paper industries as an adhesive, binder, texture agent, and filler, and by oil drilling firms to wash boreholes*

Generally, Potatoes can be used for a variety of purposes. Fresh potatoes can be baked, boiled, or fried and used in a staggering range of recipes. These include smashed potatoes, potato pancakes, potato dumplings, twice -baked potatoes, potato soup, potato salad and potatoes au gratin. However, potato as food is shifting from fresh potatoes to added-value, processed food products. One of the main items in that category is French fries. Another processed product for potato is, the potato crisp .Dehydrated potato flakes can also be used in retail mashed potato products, as ingredients in snacks. Potato flour, another dehydrated product, can also be used by the food industry to bind meat mixtures and thicken gravies and soups. Potato starch can also be used by the pharmaceutical, textile, wood, and paper industries as an adhesive, binder, texture agent, and filler, and by oil drilling firms to wash boreholes. Potato peel and other "zero value" wastes from potato processing are rich in starch that can be liquefied and fermented to produce fuel-grade ethanol. Potato harvest can also be used as farm animal feed, where Cattle can be fed up to 20 kg of raw potatoes a day, while pigs fatten quickly on a daily diet of 6 kg of boiled potatoes.

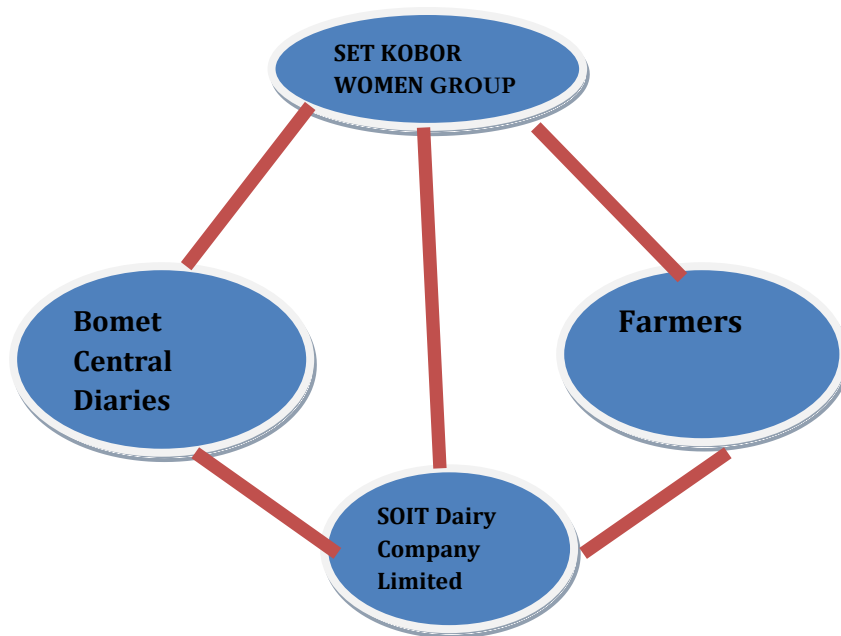
The aforementioned cases imply that there are varied mechanisms for Irish potato value addition. However, the efforts to use Irish potatoes to improve the livelihood of the locals through the value addition process are inhibited by the Low level of processing at the local, and the inadequate skills .The field visits and discussions with the farmers confirmed that most farmers sell unprocessed and less value added products to the Middlemen, who directly sell the products in Nairobi. This is said to fetch relatively little in terms of farm output Returns as compared to the overall returns realized by the vendors in Nairobi who substantially engage in value addition activities. This is attributed to high costs of processing equipments and limited technical Knowhow on value addition activities. There is also limited training on farm production and practical entrepreneurship skills. It would thus be important for the county government to formulate soft and hard infrastructure policies to increase production and to enhance the realization of the value addition activities given the aforementioned challenges.

### 3.3: Dairy Subsector

#### 3.3.1: Regulatory and Institutional Challenges

Dairy farming is a potential socio-economic contributor to Bomet and Kiambu counties. The dairy farmers in both counties are mainly small holder producers. The farmers are organised in farmer groups and cooperatives. Even though most farmers have appreciated the significance of cooperative societies in both the counties, comparative analysis reveals that the institutional framework in terms of cooperative frameworks is more organised in Kiambu County than Bomet County. A case study on the dairy institutional structure for one of the dairy cooperatives (SOIT) in Bomet confirms that the cooperative is a registered farmer owned organisation. The cooperative society has a management agreement with the East Africa Dairy Development. The SOIT dairy is owned by SET Kobor Women Group, Bomet central dairies and individual shareholders (see the Figure 3 below).

**Figure 3: A Case of Institutional Linkages for Cooperative Society**



The current core business of the cooperative organisation is bulking and selling fresh, high quality chilled milk. The company's primary product is fresh chilled milk sold to a well-established milk processor. The milk is collected in well organised groups called dairy management groups through motorcycles and pickups. The system meets the farmers need through reliable and organised milk marketing system that ensures sustainable income streams and spurs further development in the dairy sub sector. The company also offer farmers training services through the extension department, Artificial Insemination Services, Animal health services, milk payment advances and linking

farmers to friendly and recognised financial institutions. The services are offered to farmers on a check off system whereby they pay at the end of the month when milk payment is done.

A visit to the cooling plant confirmed that most of the milk are collected and directly sold to the Brookside Company Limited in Nairobi. A similar institutional structure also exists in Kiambu County where the Githunguri Cooperative Society is the Dominant dairy farmers institution .The dairy farming Kiambu is more advanced compared to the Bomet County. This is attributed to the fact that dairy farming is undertaken in Kiambu as a business and they have high quality breeds than those breeds reared from Bomet County. The Dairy farming in Kiambu County has more advanced institutional framework facilitated by the Githunguri Cooperative Society. The focus group discussions with the various farmers from the respective counties confirmed the following common challenges;

- a) *Inadequate enforcement of the regulations:* Despite the existence of the farmer driven cooperative societies in the respective counties, there were concerns that the Kenya Dairy Board (an overall regulator board) for the Industry has not been effective in regulating the operations of the small milk traders. The deficiency in the regulatory framework is attributed to the fact that the Kenya Dairy Board is mainly located in the main centers in Bomet and Kiambu Counties. However, their operations are not effectively enforced at the grass root level, where the majority of the smallholder exists.
- b) *Unequal distribution of cooperatives in the respective counties;* The findings from the focus group discussions also confirmed limited presence of cooperatives in some areas where some specific regions do not have such farmer cooperative associations. The absence of cooperatives in some areas affect the returns of the farmers as hawkers take advantage of these areas, given the fact that the unorganised farmers do not have a stronger bargaining power in terms of prices for their raw milk.

### **3.3.2: Production related Challenges**

- a) *High health maintenance cost;* the cost of taking care of the dairy cow's in terms of provision of animal feeds, Artificial insemination services were indicated by most farmers as exorbitant and constraint to the dairy productivity. High cost of these services erodes the profit margin. Farmers also pointed out lack of technical knowhow on dairy maintenance and human diseases like Hiv/Aids. There is also Inadequate Technology to handle glut conditions which have resulted into frequent milk wastage.

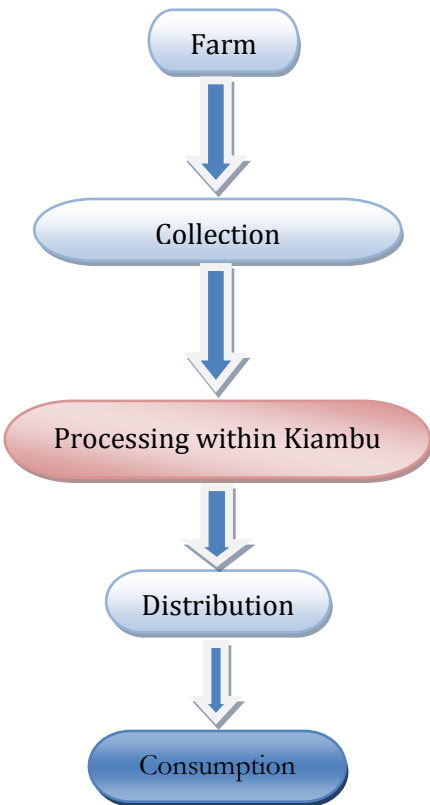
- b) *Limited access to credit*: The discussions with stakeholders also confirmed Limited/Inadequate access to credit facilities as key challenge to expanding their business as most farmers in some areas in Bomet County are not members of the cooperative societies.
- c) *Inadequate extension officers*; the extension services in most areas are inadequate were asserted to be inadequate, thus affecting the delivery of dairy advisory services. In some cases the farmer has to provide transport for the officer to be able to deliver the required services.

### **3.3.3: Mechanisms for value addition and innovation activities at the county level**

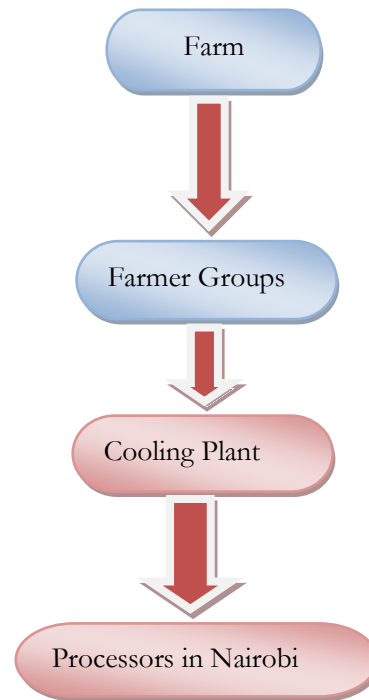
Discussions with stakeholders from Homabay and Kwale counties confirmed various mechanisms for value addition in the dairy subsector. Comparative analysis in terms of value addition reveals that the Kiambu County has a more sophisticated processing system where the degree of value addition is more developed than the Bomet County. For instance, the Githunguri Cooperative society in Kiambu plays a key role in the processing of its raw milk into fresh milk, yoghurt, Maziwa Lala (fermented milk), butter, ghee and cream under the flagship of “Fresha (See Figure Below). On the other hand, most of the farmers from Bomet County take their Milk to the dairy farmer groups.

The farmer groups further sell the raw milk to the cooling plants within the county. The raw milk is then sold directly to the processing plants like the Kenya Brookside based in Nairobi (see figure 3 below). This implies that there is limited or no value addition activities for milk in the Bomet County. The inadequacy in value addition activities limits the possibility of employment creation and by extension, the enhancement of socio-economic development at the county level. The efforts to add value to the milk products in Bomet County are constrained by the High cost of production in acquiring the cooling plants and undertaking the processing and packaging activities. There is also Lack of expertise/knowledge in the various fields along the value chains attributed to limited training facilities on milk production and processing.

**Figure 4: Case of Kiambu**



**Figure 5: Case of Bomet**



*Source: Deduction by the research team*

Given the aforementioned challenges, the devolved government system should formulate county specific policies to support value addition at the county level. The SMEs policy should catalyse the promotion of the hard and soft infrastructure that will facilitate the establishment of the relevant processing facilities; good roads, animal production and entrepreneurship skills.

### **3.4: Pineapples sub sector**

Pineapples farming in Homabay were initiated as a household farming activity by an individual in Kokwanyo village which later spread to commercial level as demand improved. Pineapple farming in the region is grown in an average land acre of ½ acres - 4 acres. Even though the pineapple farming has a growth potential in the Homabay County, field visits and consultations within the county confirmed the following production, Institutional and marketing challenges.

#### **3.4.1: Production and Marketing Challenges**

- a) *Geographical challenges:* The existing geographical nature makes it costly to undertake irrigation as the soil cannot hold water, while the land topography within the potential areas is steepy. Some of the areas often lack permanent sources of water which can sustain irrigation and the small rivers around are also seasonal.

- b) *Limited awareness on the importance of fertilizer:* The interview findings also confirmed that farmers have not embraced the use of fertilisers in the region due to wrong perception by the farmers on the fertility of land. This limits the yields from the farms.
- c) *Inadequate certified seeds:* Most Farmers also face the challenge of getting certified pineapple seeds and often rely on recycling suckers which often bear low yields. The suckers are also not easily available and farmers have to go long distances before they can access the seed which comes at high cost.
- d) *Inadequate storage facilities:* The nature of pineapples demand larger storage and transport facilities to the markets .However, in many cases, farmers are not able to afford, thus contributing to spoilage.
- e) *Poor road network:* The pineapple farmers also face the challenges of inaccessibility of pineapple farm due to poor road network which hinder farmer's efforts to take their produce to the markets. Most roads became inaccessible during rainy season which coincides with the harvesting period. Poor roads have also hindered farmer's access to other market as they are only able to carry head loads to markets since they cannot afford means of transport.
- f) *Lack of ready markets and exploitation by middlemen:* Discussions with stakeholders also confirmed lack of ready markets for pineapple which forces farmers to sell directly to middlemen on credits out of which the middlemen often default payment or excuse themselves of poor markets and low prices leading to small returns to farmers.
- g) *Limited access to farm inputs and extension services* is also a hindrance to the performance of the subsector where; most pineapple farmers have no easy access to farming inputs including fertilizers. Sometimes they fail to receive the services of extension officers owing to either lack of fuel or inaccessibility of their farms for advisory services in cases of pests and disease to the crops. At times they have to meet the transport cost (fueling for motorbikes) for extension officers to tend to their farms. This adds to production cost burden to already vulnerable farmers
- h) *Lack of farmer association/cooperative;* the pineapple sub sector also experience limited efforts towards policy formulation and development due to lack of Farmers Association. The deficiency is attributed to farmer groups or cooperative societies to advance the interest of the farmers in Homabay County. This has also inhibited their ability to easily access credit from the financial institutions.

### **3.4.2: Mechanisms for enhancing value addition activities**

There are potential mechanisms for enhancing value addition in the pineapples industry. Some of the mechanism includes processing the raw pineapple to pineapple juice, canned pineapples, dried pineapples and wine. Even though value addition is important for sustainable economic development; lack of processing facility was cited to be the main



bottleneck to value addition activities in the Homabay County. The County has engaged in rudimentary value addition methods since the variety of pineapple available is only best for drying due to its high sugar level. Such preservation mode limits the chances for value addition. Furthermore, there is no established processing unit for pineapple and its products in the county. This is attributed to the high capital requirement for establishing pineapple processing unit and Farmers are not organised in formidable societies to access loans to facilitate establishment of processing units.

Despite the existence of the structural value addition challenges in the region, there are plans to build a pineapple factory in Homabay district by Kenya Industrial Research Institute (KIRDI) to streamline marketing of the crop in Southern Nyanza. The initiative will involve installation of equipment to process the pineapples into products with better commercial value. KIRDI also has plans to engage in the marketing of both raw and processed pineapple and other fruits so that they are sold in retail shops, supermarkets, urban outlets and other factories all over the country to address over production.

### **3.5: Orange subsector in Kwale County**

Orange subsector is one of the key sub sectors in Kwale County in terms of its potentiality in enhancing sustainable economic development. Most of the farmers are small scale farmers who are engaged in the farming activities, where majority of them are women and youths. As in the case of the subsectors other sectors, the focus group discussions identified various challenges. These include:

#### **3.5.1: Production and Marketing Challenges**

- a) *Lack of disease resistant varieties:* Farmers face the problem of dealing with crop diseases which interferes with the quality and quantity of the fruits. For those farmers who have shifted from the indigenous oranges which takes 6years to exotic ones that last 2-3 years to mature still faces the disease menace. The exotic breed of oranges are also not the sweetest hence not very marketable as compared to the indigenous breed.
- b) *Inadequate knowledge on good crop husbandry:* Inadequate knowledge, resources and expertise which have hindered farmers from engaging in good crop husbandry. This has contributed to the maintenance of the old and aging orange trees in their farms, limited application of fertilizer and modern production techniques like use of irrigation system.
- c) *Poor market information system:* was also confirmed by various stakeholders during the focus group discussions. The Farmers only rely on local markets and middlemen who often buy on credit only to complain later on poor prevailing market and spoilages hence farmers get a raw deal on prices for their Oranges. There is also poor market information on alternative best prices in other available markets.

- d) *High cost of transportation*: there were concerns of experiencing high costs wherever they want to seek other market opportunities due to poor road infrastructure. Hence farmers who cannot access transport facility for their produce to external markets only rely on middlemen.

### **3.5.2: Regulatory and Institutional Challenges**

- a) *Difficulty in forming farmer groups*: Efforts to enhance the bargaining power for farmers has been inhibited by Difficulty in Forming farmers cooperative Society in the sector. This is attributed to lack of trust among orange farmers in Lukore Location which weaken the progress of Lukore fruits farmers' cooperative society. Given the lack of the cooperative society, farmers are not able to undertake collective loan application to better their farming by either collectively purchasing transport facility for their fruits and for the purchase of processing unit and storage facility and collective marketing for their oranges. .
- b) *Low returns from the produce*: Farmers experience low prices which are often dictated by the buyer despite the crop taking as long as 6years to produce. They indicated that one kilogram of (1Kg) of orange sells at an average of kshs.2. The low prices are attributed to limited bargaining power due to lack of stronger business associations to represent the interest of the farmers.

### **3.5.3: Mechanisms for enhancing Value addition.**

The value addition activities are also limited in Kwale County. This is attributed to lack of technical knowhow and equipments for value addition procedures in oranges. Farmers often rely on rudimentary preservation methods and fail to undertake packaging of the oranges to fetch better prices. There are no proper processing equipments as farmers rely only on a small capacity machine that uses petrol to squeeze Orange juice. This has remained to be an impediment to realizing better returns from the orange farming activities.

## **4.0 Summary of the research findings, Conclusions and Policy Recommendations**

### **4.1: Summary of the Research Findings**

The case analysis from India and South Africa affirms a formal institutional structure for SMEs development. The existing regulatory structure depicts institutionalised system for private and public dialogue for SMEs consultation, framework for stronger SMEs association and stronger institutional linkages and coordination. For instance, a country like India has a direct forum for Public –Private Partnership where constrains inhibiting the performance of the SMEs can directly be discussed with the relevant authorities. A further comparative analysis also confirms the existence of strong business associations at the grass root level to enhance policy advocacy for the SMEs. Such associations are

important in advocating for policy reforms at the local level. There are further indications of institutional distribution at the local level in different states. Further evidence also affirms the existence of SMEs related specific financial institutions. For instance there is South Africa Micro finance fund in South Africa to enhance increase in access to finance and also the small industries development Bank in India. The Indian government has also established the Export-Import Bank. The Bank proactively assists SME units in establishing their products in international markets.

A similar analysis in Kenya based on the key study findings and literature review confirms that the general architecture for the institutional framework reveals multiple institutions which regulate the subsectors, with poor coordination of the SMEs activities. This can be confirmed by the several government institutions working on SMEs related issues with conflicting interests. For instance, the Ministry of Trade, The ministry of Industrialisation and Labour have departments working on similar SMEs without proper coordination of the sub sector activities. This is contrary to the framework in India and South Africa, where the SMEs issues are coordination by a central institution. Furthermore, the government of Kenya does not have a policy document to guide the SMEs sub sector and such policy gap might explain the deficiency in the proper coordination in the sub sector.

Another key policy issue arising from the research findings is related to inadequate private and public dialogue. Even though the private –public dialogue has been emphasised at the central level, through the Kenya Private Sector Alliance, the views from various stakeholders depicts limited consultation on the ground in the policy making process, which implies the existence of top bottom approach in the policy making process. Despite the existence and emphasis on strong business associations in India and South Africa, analysis from the Kenyan system confirmed limited institutional framework, associated with lack of sector specific associations at the local level, which could be one of the key causes of the weak institutional structure. Some of the existing associations are weak and lack funding to advocate for the policy related reforms in the specific sectors. The study findings also affirm that the existing SMEs associations are based in the capital, with limited presence on the ground. Some of the existing farmer groups like KENAPOFA do not have adequate skills for promoting the envisioned agenda. Furthermore, some of the farmers (Irish potato) also raised their fears of joining the existing farmer groups, given that the farmer groups have no clear strategies towards addressing their interests.

The existence of the institutional deficiency has contributed to unclear consultation mechanism at the local level between the private sector and the government. The condition might affect the positive socio-economic contribution of SMEs through the devolution as confirmed by Kiggundu, 2000 which stipulates that the impact of devolution

on local economic development depends upon a number of internal and external factors, like age, size, nature of tasks, technology, internal management, regulatory and administrative capacity, and sociopolitical and economic factors .

The research findings also affirm the existence of limited access to finance by the SMEs despite the existence of the various potential financial institutions for SMEs in the country. This is attributed to the fact that the various financial institutions are not conditioned to specifically support the SMEs. For instance the Kenya industrial estates (Government Agency) established to provide loans to the SMEs has not up scaled the degree of access to finance since KIE only provide loans to SMEs registered associations or groups, despite of the weak or no associations in some subsectors. Furthermore, the SMEs led funds like the Kenya Youth Fund are channeled through financial institutions which, according to the stakeholders, do not provide pro SMEs led lending conditions.

The findings also affirm limited coordination in the implementation of the SMEs regulated policies in Kenya. For instance, the implementation of the Legal Notice No.44 in the potato industry has been inadequate due to limited coordination between the Ministry of Agriculture and the Local Authorities in the respective counties. The same scenario is also evident in the fishing industry where the implementation of the regulation on the Beach management units has not been realised as per the intended objectives. There are also institutional challenges in regulation of the dairy industry, where the regulator (Kenya Dairy Board) does not have intensive presence on the ground due to other factors like limited funding. This scenario has contributed to challenges in regulating the small milk traders in Kenya. Further evidence also affirms that the KIRDI has not realised its expected role in enhancing value addition led technologies in the sectors like those related to horticulture. Even though there are efforts to establish value addition activities at the county level, the impacts of such initiatives are yet to be realised in most of the counties in Kenya as farmers still market raw produce at lower prices. It would thus be important for the government to establish relevant incubators in the respective counties to enhance technological transfer to the locals.

Comparative analysis in terms of subsectors performance for instance dairy industry from the two counties confirms that the dairy sub sector in Kiambu is doing better than the Dairy subsector in Bomet County. This implies that the SMEs development in the various countries can be fostered by drawing lessons through cross county experiences. In terms of how the regulatory agents will relate to the County system of government, it was found that there is a very large gap in thinking on how and in what manner the national agencies will relate and have a presence in the Counties. However, the extent at which the new county system contributes to SMEs development in the respective counties depends on how best the current SMEs Act, 2012 is restructured to factor in the administrative changes as outlined in the current constitution. There is thus need for each county to

develop its SMEs policies based on the local needs (through the county assemblies and citizen Foras) and such policies should indicate how the institutional and regulatory framework will link up with the governance structure at the county level under the current constitution. The SMEs Act should thus indicate how the central government, through the department of MSME will work with the Trade, industrial Department and regulation service departments at the county level to promote and develop the SMEs sub sectors.

#### **4.2: Conclusions and Policy Recommendations**

The research findings from the field affirm common challenges facing the SMEs subsectors in the respective counties. The challenges exist at production; marketing, institutional and regulatory levels. Even though the challenges are county specific (which implies that each county is unique in terms of economic activities), the challenges facing are common on the basis that most of the counties are characterized by agricultural related activities which require a common strategy. The existing challenges exemplifies that most of the constraints to SMEs development from the respective counties are similar given that the sub sectors are agro based. The challenges require a strategy that would promote easy access to credit and farm inputs, promote value addition activities and hard infrastructure to enhance market access for SMEs.

#### **4.2: Policy Recommendations**

The Institutional framework and policy specifications are important factors in helping the evolution and success of SMEs. There is a wide range of programmes in diverse areas of SME development, viz., financing, technology, innovation, managerial ability, market information, and developmental assistance, aimed at improving the working environment for SMEs. In the context of Kenya, SME development requires a cross-cutting strategy that touches upon many areas, which can help the sector to improve and create a niche for itself in the Kenyan economy. In this regard, select features of institutional support mechanism from the field and selected countries have been analysed. Gaining from the Experiences of other countries like India and South Africa, a set of measures has been suggested, in terms of approach, policies and programmes for SME development in Kenya. The following are therefore some of the proposed policy recommendations that should be adopted to address the SMEs related challenges in line with the key study findings;

- a) **Establish an inclusive Private-Public Dialogue:** A formal and organised SMEs structure would provide direction on how the county government should establish a formal coordination structure. For instance, a stronger Institutions evidenced by an operational public-private dialogue framework would provide avenues through which

the SMEs associations can present their interest at the county level through the county assemblies. Such dialogues can be enhanced through the following mechanisms;

**Table 4: Mechanisms for Enhancing Private-Public Dialogue**

<b>Consultative Panels</b>	Panels of various types are used by Governments to identify issues, test ideas, consult on policy developments and review the impact of policy. To be effective vehicles for dialogue they need to be conducted in a spirit of inquiry and exploration, rather than as opportunities for government to receive feedback for marketing purposes. The composition, selection processes and discussions of these panels need to be appropriately transparent in order to ensure public confidence in their value.
<b>Regional and local panels.</b>	These panels should reflect regional and local structures of devolved decision making. Should be made up of local or regional business leaders and representatives. They should meet with the local or regional government representatives in order to provide geographical adaptation and relevance to national policy development and implementation. They should also provide a platform for regional industrial clusters to inform policy development.
<b>Explicit and open policy development processes</b>	Should be a process for policy development which provides major promotion for dialogue. There is need for consultative requirements to be built into a State's mechanism for policy development. The administrative and/or legislative structures should require consultation on new policy to take place. Such visible process would encourage the private sector to believe that government is concerned with their views, and consequently encourages individual businesses and representative organizations to inform government of their views. The government can develop a Small Business Administration Unit which reviews all new policy for small business implications, and to act as a powerful "voice of small business in government". These initiatives promote greater dialogue with the private sector through the presentation of a transparent and personified commitment to development of the small business sector.
<b>Open government activities.</b>	These include the use of a range of media to encourage participation in the process of policy development. Websites can be used to promote dialogue opportunities, request the submission of views, feedback summaries of consultations and publish policy papers. In addition to electronic media, the press and other print media can also be effectively used to invite the submission of opinions and promote the mechanisms of consultation.

- b) **Support the establishment of stronger business associations at the county level:** Given the existing gap in the institutional framework, the overall and county specific government policies for SMEs should emphasize on building alliances in the various SMEs sub sectors. The government should provide support to enhance legitimate representative organizations at the county level. Such networks /associations would assist in lobbying and policy advocacy through the county assembly and citizen Foras to advance policy reforms and facilitate the SMEs to easily access credit at the county level.
- c) **Formulate specific county led SMEs policies aligned with overall SMEs policy;** Even though the government is in the process of enacting an overall SMEs policy in Kenya, there is need for each county to evolve its own policies and packages of incentives based on the county's economic competitiveness.

Such policies should be informed by diagnostic studies undertaken to understand the respective county competitiveness. The revealed county competitive advantage would indicate the SMEs sectors which the county government should promote. For the sake of stronger coordination, the central government should remain to be the overall overseer of all the SMEs strategies in each county to assist in the promotion of the SMEs activities.

- d) **Need to establish tailored training Institutes for SMEs at the county level;** Even though there are government institutions providing courses on SMEs issues, It would be important for the government to establish SMEs specific training institutes especially in each county based on the county's competitiveness and its production output. Such training for SMEs should focus on developing and providing training, research and consulting services for small-scale entrepreneurs to enhance production, value addition and entrepreneurship skills.
- e) **Need to establish SMEs oriented financial institutions in each county:** There is need for specific SMEs oriented bank to facilitate the promotion, financing and development of the small scale industries sector where individual business investment in plant and machinery and tourism sectors and also to the professional and self-employed persons setting up small-sized professional ventures. The financial institution should also offer a wide range of financial products either directly or indirectly .The financial institution for SMEs should be established in each county to enhance easy access for potential and existing SMEs.
- f) **Establishing an Import and Export Bank for SMEs:** the government should also consider establishing an import and export Bank for SMEs. Such bank should focus on SME exporters as a significant target group of clients. The Bank should proactively assist the SME units in establishing their products in international markets and developing the markets within the value chain.
- g) **Need for a central government to coordinate the SMEs issues in the country:** Currently, the SMEs issues are handled by different departments in different government ministries/departments which enhance duplication of SMEs oriented activities. The government should develop a policy to harmonise the institutions dealing with the SMEs issues to avoid conflicts in the implementation process. There should be a nodal institution for policy formulation, promotion, development and protection of SMEs. The institution should also monitor the execution of the formulated policies to monitor the effectiveness in their implementation. The proposed government authority should directly work with the relevant department at the county government. Such government should

facilitate the establishment of the SMEs one stop centre where all the issues national issues regarding SMEs are addressed.

- h) **Establish an SMEs development organization:** There is need for a SMEs development organization to assist the central government in the formulation and implementation of policies and programme for the promotion and development of the Small Scale Sector. Such development organization should liaise with the central and county government departments and agencies, financial institutions and other key small scale sector intermediaries. It should also encourage capital and technology flows, and provide a comprehensive range of common facilities, technology and competitiveness support services, and marketing assistance through a network of Production Centre and Field Testing Stations.
- i) **Establishing an entry level for SMEs groups:** The government should develop requirements and criteria for SMEs operations where strict regulations for entry and exit in the SMEs is established to ensure that that only the Skill based SMEs are permitted to operate in the market.
- j) **Cross county knowledge sharing and field experiences:** the comparative analysis on the study findings confirms diversity in terms of resources, experiences and sub sector performance. As there will be need to promote equitable regional competitiveness through cross county collaboration by sharing experiences, skills through field visits to understand cross county experiences.



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## Annexure

**Annex 1: Table 4: General Comparative analysis of the Key findings**

<b>SMEs Challenges</b>	<b>Dairy Subsector (Bomet and Kiambu counties)</b>	<b>Irish Subsector Bomet and Kiambu counties</b>	<b>Fishing Industry Homabay and Kwale</b>	<b>Oranges and Pineapples</b>
<b>Production Challenges</b>	High health maintenance cost	Inadequate institutionalised seed development system	High cost of inputs	
	Limited access to credit	Limited technology on how to use input services	Inadequate finance	Geographical challenges
	Inadequate Extension officers	Poor road network	Inadequate extension services	Limited awareness on modern production skills; Limited access to farm inputs and extension services
		Inadequate extension services Low returns	Lack of quality fishing materials.	Inadequate certified skills
				Inadequate storage facilities
<b>Marketing Challenges/ Value Addition</b>	High cost of acquiring cooling plants.	High cost of processing equipments	Exploitation by middlemen	Lack of ready markets and exploitation by middlemen
	High cost of packaging and processing activities.	Limited technical knowhow on value addition activities.	Lack of processing and storage facilities	Lack of processing facilities; inadequate know how on value addition;
	Inadequate expertise on practical animal production methods	Limited training facilities on farm production activities	Poor road network and sanitation facilities	Limited technical knowhow on processing.
	Limited training facilities on milk production and marketing at county level	Inadequate entrepreneur skills	Limited market information	High cost of transportation; poor market information system
<b>Regulatory and Institutional Challenges</b>	Inadequate enforcement of legislations	Weak producer association		Difficulty in forming farmer groups;
	Unequal distribution of cooperatives in the respective counties	Lack of formal Private-Public Dialogue consultative mechanism		
		Poor enforcement of agriculture legislations		

## **Annex 2**

### **Terms of Reference**

The study was conducted under the following terms of references;

- (a) To review documentation on the institutional and regulatory challenges around SMEs in Kenya in comparison with best practice economies.
- (b) To collect and analyse primary (through Participatory Appraisal of competitive Advantage (PACA) methodology, questionnaires and in-depth interviews) and secondary data.
- (c) To produce a research report, an SME Development Policy paper and a policy brief-all with policy recommendations to promote the growth of SMEs in Kenya.